



SUBSIDIARY COMPANIES

THE WAWANESA LIFE INSURANCE COMPANY

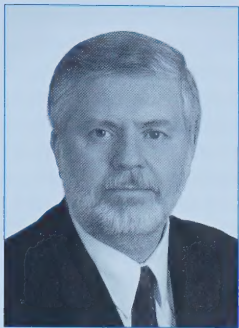
400-200 Main Street
Winnipeg, Manitoba R3C 1A8
100% Owned
Book value of shares \$87,421,000

WAWANESA GENERAL INSURANCE COMPANY

9050 Friars Road
San Diego, California 92108
100% Owned
Book value of shares \$130,213,000



Wawanesa
Earning Your Trust Since 1896



PRESIDENT'S REPORT

As I reflect on how we fared in 2010, I can only conclude that it was a good year for our Company. Our business grew in a very satisfactory manner. When industry information becomes available, I'm sure it will show that we again increased our overall market share. We experienced growth in almost every region, with substantial growth in a number of regions. Our underwriting profitability improved from last year, although not quite as much as we would have liked. We continued with our commitment to our Mission, Values and Goals and made progress on most of our chosen strategies during the year. Our investment portfolios performed well. We added \$136 million to surplus and maintained a very strong capital position.

Development in our Information Services area continues to be a major focus. We are striving to improve the systems that support our insurance operations. In that regard, our initiative to replace our claims system with Guidewire's ClaimCenter is progressing very well and according to plan. A staged implementation is planned for 2011. The plan includes the introduction of the new system in all locations by the end of the year and a decommissioning of the existing claims system by that time. The development team is very focused on meeting these milestones.

Following the principles established in our Enterprise System Renewal Strategy, during 2011 we expect to examine alternatives for replacement of our Policy Administration System. We hope that work could begin on that significant initiative upon completion of the claims project.

Another major initiative was the development of a budgeting, planning and forecasting application in order to enhance our financial management of the company. That project was completed in late 2010.

We are now beginning the development of a data warehouse for claims and policy data that will enable

more accurate analysis of our insurance data and business results which will provide for more timely and accurate rating activity.

Our broker transaction portal is now functional with the last remaining task, integration with broker management systems, under way. We expect to have integration to many broker management systems available by the end of 2011.

We continue to work at adopting more sophisticated rating and pricing capabilities. The focus has been on personal property insurance in all markets as well as lesser regulated auto markets. We believe this is necessary to maintain competitiveness but also to avoid the negative financial consequences of not utilizing contemporary rating approaches. However, as always we are considering the impact on individual policyholders when making changes.

We experienced growth in our commercial lines in 2010 that can be traced directly to efforts to develop and promote our product line in the small to medium size commercial market as well as training of our brokers regarding these developments. Commercial policy count increased by almost 4% while premiums increased by over 10%; all of this in what is considered a soft market.

FINANCIAL RESULTS

As mentioned earlier, growth was strong in 2010 with an overall increase in premium income of 8% and growth in policy counts of over 4%. Underwriting results were a bit disappointing as our plans called for a somewhat better result than the reported underwriting loss of \$42 million. There are a few contributors to the 2010 result.

The first is the continuing challenge in the Ontario automobile market. Industry results have been very poor for the last few years. Premium rates have been increasing substantially. Reforms to the automobile insurance system were implemented on September 1, 2010 with the objective of halting the rapidly escalating claims costs and stabilizing premium levels. At the time of writing this report, it is still too early to tell if the reforms will deliver the desired results. However, there are two positive observations here. The first is that the government and regulator are observing the situation carefully which provides hope that if more action is required, it will be taken. The second positive is that there now seems to be acceptance that fraud is a significant contributing factor to increasing claims costs. The industry continues to work with government to combat fraud through increased investigation



and prosecution, but also to restrict the richness of those benefits in the auto policy which provide the inducement for fraud.

The second challenge is the cost of severe weather events, mainly in Western Canada. We experienced a record number of catastrophic events in 2010 with a record total loss amount. We continue to address these costs through premium increases but are working to ensure that premium increases are applied in a manner that is commensurate with the risk represented by each rating territory.

A bright spot is that other than Ontario, all of the other private auto markets in Canada are performing well. We have experienced adequate levels of profitability in these markets while premium rates to consumers have been stable for many years.

Once again, the low interest rate environment has impacted our underwriting results. Claims reserves are calculated on a discounted basis and a lower interest rate environment results in higher claims reserves. As was the case in 2009, the effect of this change in discounting was approximately half of our reported underwriting loss. It should be remembered that the offset to these reserve increases is an increase in the value of the underlying bonds. However, the increase in the value of these bonds will be reported as investment income when realized in future periods.

Investment income for the year is \$232 million consisting of \$162 million of interest and dividends along with \$70 million of realized gains. A lower interest rate environment and improved stock markets have contributed to good investment performance in 2010. In addition to realized gains in the year, our unrealized gains increased by \$142 million to now total \$304 million.

We are reporting net income before taxes of \$190 million and \$136 million after taxes, improved from \$100 million in 2009.

Total Comprehensive Income, which includes net income and all other unrealized forms of income, totalled \$224 million increasing our total equity to \$2.2 billion at the end of the year. Our capital ratio remains very strong at 306%, much in excess of regulatory requirements and our A.M. Best rating was stable at A+ (Superior).

REGIONAL RESULTS

Overall results in the Maritime Region were good in spite of winter storms experienced late in 2010.

Automobile results were quite good and served to offset disappointing results in the property line. Growth was strong with an increase in policy count of 6.4% and premium growth of 8.7% spread quite evenly over both auto and property business. Reviews of some aspects of the auto insurance systems are being conducted by governments in both New Brunswick and Nova Scotia. It is certainly healthy to periodically review the systems to ensure they are working effectively. However, the systems in both provinces are working well and have provided premium rate stability for a number of years so it is hoped that there is careful and thoughtful consideration before any changes are made that could risk this stability.

The Quebec Region continues to be a challenge for us. Our policy count declined marginally in 2010 but premium income did increase by almost 2%. Results were disappointing but are acceptable while we work at addressing our competitive challenges. We will be introducing a completely updated pricing and rating approach in 2011 that we expect to bring us in line with industry practice and will result in us being much more competitively positioned within the industry. This is a major undertaking that has taken some time to develop but we feel it will do much to address our lack of growth in recent years.

The Ontario Region experienced a combination of highs and lows in the year. The automobile situation continued to be a challenge and we are reporting a very significant loss in that line of business. We are keenly monitoring the effect of the reforms implemented on September 1st to determine whether they will have the desired effect of stabilizing claim cost development and allowing a more stable premium rate environment. Premium income on the auto line grew by 18% with a modest policy count increase. On the other hand, property results were strong with an increase in policy count of 10%, premium growth of 24% and a good underwriting gain.

The operation of the Winnipeg Region was positive in all respects in 2010. The region reported very good growth in both major lines of business combined with a modest underwriting profit.

After a quiet year of severe weather in 2009, the Prairie Region once again was faced with many weather catastrophes, most of which occurred in Saskatchewan. A total of 12 events produced \$46 million of claims during the summer months including a rainstorm in Yorkton, Saskatchewan with claims exceeding \$20 million. Our claims department staff was certainly kept very busy with servicing our policyholders



and adjusting their claims. With that level of storm activity it is not surprising that the region is reporting a significant underwriting loss for the year. However, ongoing efforts to better price for these types of events that seem to be occurring more regularly assisted in limiting the loss. Growth in policy count for the year was modest but premium growth was almost 10%.

The weather was also a big part of the story in Alberta. A total of 10 weather events occurred in the province totalling almost \$100 million. The largest event was a wind and hail storm in July with total claims costs of \$67 million, particularly impacting the Calgary area. Our claims staffs were kept quite busy in both Alberta regions.

In spite of the large amount of catastrophe losses, Southern Alberta Region reported only a small underwriting loss, primarily because automobile results were very good. The region grew well in 2010, over 5% by policy count and almost 10% in premium income.

Northern Alberta also reported steady growth in both policy counts and premiums but in addition reported a very strong underwriting profit. In spite of significant weather losses, the region reported a modest underwriting profit in the property line with a strong profit in the auto line.

The British Columbia Region was very busy and performed well in 2010 with growth in policy counts of 8% and premiums of 14%. The region was not greatly affected by severe weather activity and a significant underwriting profit was reported.

Our United States Operations struggled a little in 2010. Growth remained a challenge due largely to poor economic conditions in California. Policy counts increased modestly with little increase in premium income. We are reporting an underwriting loss of \$12 million for 2010 with most of it occurring in December, a result of heavy rains in the month. Property results are very good but the auto line had disappointing results. Our property line is quite small compared to the auto line and we plan to take steps to increase our property business so it becomes a relatively larger share of total premium income.

WAWANESA LIFE

This year marked the 50th Anniversary for Wawanesa Life and it was a year of progress and challenge for the Company. Individual insurance new business production was slow at the start of the year but finished strongly while group insurance new business reached record levels. The Company's total assets under

administration, which include the segregated funds, have grown by \$85 million to reach \$772 million, the highest level of assets in the Company's 50-year history.

Premium income grew to \$99 million in 2010. Life insurance premium increased by \$1.1 million, health insurance premium by \$3.8 million and annuity premium by \$5.1 million for an overall increase of \$10 million over 2009. However, the growth in business, particularly in the group health and dental lines of business, was closely followed by a similar increase in claim activity. This situation also resulted in additional reserves being required as we considered the likelihood of these heavy claim patterns continuing. Other benefit and expense totals are comparable to last year's results except for an increase in maturities and surrenders, largely from our annuity business. Operating expenses have grown as the Company continues to invest in its operational infrastructure to better service policyholders and brokers.

Wawanesa Life is reporting net income of just under \$1 million. The unrealized market value of investments supporting the Company's capital position is reflected in other comprehensive income of \$3.7 million. When combined with net income, the result is total comprehensive income of \$4.6 million.

New business sales of individual insurance totalled \$4.8 million for the year, down slightly from 2009 levels. This is a positive result considering the slow start to the year. Product and rate changes made in the middle of the year drove much of this improvement. The persistency ratio continues to remain strong and as a result premium income has improved 3.7% to \$39.1 million. Continued premium growth and reasonable mortality gains are contributing to the profit being reported in these lines of business.

Product review was the focus for much of the past year in the Individual Operation. As such, changes were made to the existing term product portfolio including the addition of a new T30 plan as well as updates to the Critical Illness and Segregated Funds products. The latter part of 2010 saw some upward movement in competitor pricing in reaction to the prolonged period of low interest rates being experienced. In 2011, we anticipate further product reviews as we continue to assess the effect of low interest rates on pricing and the potential impact on product design of adopting International Financial Reporting Standards.

New business sales of group insurance reached record levels in 2010. The traditional 10+ group product had a strong showing at \$3.8 million while sales of our new product aimed at the 3-9 life market reached



\$5.1 million; well exceeding expectations. As a result of this much improved sales activity, premium income increased by 15% to \$27 million. However sales growth did not translate into profit this year because the claims experience of the 3-9 life product is considerably higher than expected in pricing the product. As a result, additional reserves were established and the group line of business is reporting a significant loss.

The 3-9 life group plan represented a new product and market for Wawanesa Life. The product's new business results confirm that we have developed a unique package approach to group insurance for small businesses and it has found a niche in the marketplace. However, a product's pricing must be both competitive and sustainable. In response to emerging claims experience, changes have been made to the product's pricing and plan design while preserving many of its unique market features.

Wawanesa Life continued its track record of financial strength in 2010. The MCCR (Minimum Continuing Capital and Surplus Requirements) ratio is now well in excess of 250%, continuing to be above industry standards and significantly above the minimum requirement set by the Office of the Superintendent of Financial Institutions. In addition, Wawanesa Life continues to be rated as A (Excellent) by A.M. Best.

ACKNOWLEDGEMENTS

Three vice presidents retired in 2010, each after a long and successful career with Wawanesa.

Neil Miller, Vice President, Northern Alberta Region retired in July after 32 years of dedicated service to Wawanesa in Edmonton. During his career, Neil progressed through many positions including Automobile Underwriting Manager, Edmonton Branch Manager and in 1999, he was appointed Vice President, Northern Alberta Region. Our operations in the Northern Alberta Region grew significantly under Neil's leadership.

Paul Goodman, Vice President and Comptroller retired in September after 25 years of dedicated service to Wawanesa. Paul joined Wawanesa in 1985 as Accounting Manager and shortly after was promoted to Comptroller. In 2004, Paul was appointed Vice President and Comptroller. Paul was a major contributor over the last 25 years to the success of Wawanesa and the development of our financial systems.

Dave Goss, Vice President, United States Operations retired at the end of 2010 after a 29-year career with Wawanesa. Dave joined Wawanesa as Services Manager

in 1981 and later became Services and Underwriting Manager. He was fully responsible for the US Operations since 1987, firstly as Branch Manager and in 1999, as Vice President, US Operations. Under Dave's leadership, the operation grew to over 550 employees and \$300 million of premium income.

We thank Neil, Paul and Dave for their dedication and commitment to Wawanesa and wish them all the best in retirement.

Keith Hartry, FCIP, MBA, was appointed Vice President, Northern Alberta Region, in August. Keith has been with Wawanesa for many years, joining the Prairie Region Claims department in 1988 and progressing through a number of roles, including his most recent position of Manager, Property Products in Executive Office. Since joining Wawanesa, Keith has earned the Fellow Chartered Insurance Professional (FCIP) designation and a Master of Business Administration (MBA) degree.

David Fitzgibbons, CPCU, was appointed Vice President, US Operations effective January 1, 2011. David has also been with Wawanesa for many years, joining the company in 1980 as a Management Trainee. Over the years, David assumed roles of increasing responsibility in the Underwriting area and was most recently Underwriting Manager. He has earned his Chartered Property Casualty Underwriter (CPCU) designation.

Our Board of Directors continued with its strong focus on governance and successfully recruited a new member to the Board in 2010. Elizabeth J. Beale, B.A., M.A. was elected as a Director of The Wawanesa Mutual Insurance Company, The Wawanesa Life Insurance Company and Wawanesa General Insurance Company. Ms. Beale is an economist and a resident of Halifax, Nova Scotia and accordingly brings both strong expertise and regional representation to the Board. She is well known in Atlantic Canada and has spent many years with the Atlantic Provinces Economic Council, including the role of President and CEO since 1996.

The year just ended was a good one for Wawanesa and I would like to thank our customers, brokers and employees for helping to make it that way through their loyalty, support and commitment. We remain focused on growing and improving our company in a responsible manner. We have been earning your trust since 1896 and intend to continue acting in a manner that respects that trust.

Ken McCrea, CA, FLMI
President and Chief Executive Officer



THE WAWANESA MUTUAL INSURANCE COMPANY

INDEPENDENT AUDITOR'S REPORT

February 22, 2011

TO THE DIRECTORS OF THE WAWANESA MUTUAL INSURANCE COMPANY

We have audited the accompanying consolidated financial statements of The Wawanesa Mutual Insurance Company (the Company) and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations, equity, comprehensive income and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our qualified audit opinion.

Founded in 1896
Incorporated May 1, 1929

Head Office
Wawanesa, Manitoba

Executive Office
900-191 Broadway
Winnipeg, Manitoba



THE WAWANESA MUTUAL INSURANCE COMPANY INDEPENDENT AUDITOR'S REPORT

OFFICERS AND CORPORATE MANAGEMENT

K. E. McCrea, CA, FLMI
President and Chief Executive Officer

G. N. Bass, Q.C.
Vice President, General Counsel and Secretary

B. A. MacKinnon, FCAS, FCIA, MAAA
Vice President and Chief Actuary

G. J. Timlick, CA
Vice President and Chief Financial Officer

S. J. Goy, ACAS, CIP
Vice President, Insurance Products

R. G. LaPage, FCIP, CRM
Vice President, Regional Insurance Operations

C. R. Loepky, BScCS
Vice President, Information Services

C. B. Luby, FCIP, CRM
Vice President, Marketing and Business
Development

B. K. MacIntyre, BBA, FCIP
Vice President, Claims

T. L. Nelson, FLMI/M, CHRP, CIP
Vice President, Human Resources

K. P. Boyd, CA
Controller

P. R. Mulaire, CMA, FCIP, CIA
Manager, Internal Audit

Basis for qualified opinion

As explained in notes 2 and 3, the Company has not consolidated the financial statements of its wholly-owned subsidiary The Wawanesa Life Insurance Company (the subsidiary) because management of the Company has determined that reporting of property and casualty and life insurance operations on a consolidated basis would not provide meaningful presentation. This subsidiary is accounted for by the equity method. In this respect, the consolidated financial statements are not in accordance with Canadian generally accepted accounting principles. Note 5 includes information on significant balance sheet and statement of operations items in the subsidiary. Had the financial statements of the subsidiary been consolidated, virtually every account in, and the information provided by way of notes to, the accompanying consolidated financial statements would have been affected by the underlying information of the subsidiary.

Qualified opinion

In our opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Winnipeg, Manitoba

PRICEWATERHOUSECOOPERS 

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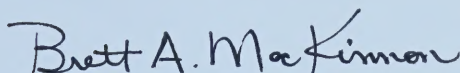
THE WAWANESA MUTUAL INSURANCE COMPANY
APPOINTED ACTUARY'S REPORT

February 22, 2011

TO THE DIRECTORS OF
THE WAWANESA MUTUAL INSURANCE COMPANY

I have valued the policy liabilities of the Company for its consolidated balance sheet as at December 31, 2010 and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice including selection of appropriate assumptions and methods.

In my opinion the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the result of the valuation.



Brett A. MacKinnon, FCAS, FCIA, MAAA
Winnipeg, Manitoba

BRANCH OFFICES

Maritime

1010 St. George Boulevard
Moncton, New Brunswick
B. E. MacKenzie, CIP
Vice President, Maritime Region

Québec

8585 Décarie Boulevard
Montréal, Québec
C. Auclair, PAA
Vice President, Québec Region

Ontario

100-4110 Yonge Street
Toronto, Ontario
T. R. Greer
Vice President, Ontario Region

Winnipeg

700-200 Main Street
Winnipeg, Manitoba
E. Rossong, FCIP
Vice President, Winnipeg Region

Prairie

Wawanesa, Manitoba
W. G. McGregor, FCIP
Vice President, Prairie Region

Northern Alberta

100, 8657-51st Avenue
Edmonton, Alberta
K. E. Hartry, FCIP, MBA
Vice President, Northern Alberta Region

Southern Alberta

600, 708-11th Avenue S.W.
Calgary, Alberta
M. M. Cote-Johnson, CIP
Vice President, Southern Alberta Region

British Columbia

400-1985 West Broadway
Vancouver, British Columbia
G. R. Haigh, FCIP, CAIB
Vice President, British Columbia Region

United States

9050 Friars Road
San Diego, California
D. G. Fitzgibbons, CPCU
Vice President, United States Operations



THE WAWANESA MUTUAL INSURANCE COMPANY
CONSOLIDATED BALANCE SHEET

	As at December 31	
	2010	2009
	('000s)	
Assets		
Investments (note 4)	\$ 4,688,871	\$ 4,339,505
Accrued investment income	25,657	24,702
Receivables	669,179	589,578
Investment in subsidiary (note 5)	87,421	82,698
Real estate – at cost, less accumulated depreciation of \$30,185 (2009 – \$29,013)	43,270	43,808
Furniture and equipment – at cost, less accumulated depreciation of \$17,471 (2009 – \$14,410)	12,323	13,582
Due from Facility Association	6,198	12,148
Deferred acquisition expenses	222,320	187,509
Intangible assets – at cost, less accumulated amortization of \$1,033 (2009 – nil)	17,739	7,842
Future income taxes (note 8)	20,101	15,302
Total assets	\$ 5,793,079	\$ 5,316,674
Liabilities and equity		
Bank indebtedness	\$ 52,739	\$ 40,030
Unpaid claims (note 6)	2,202,052	2,028,062
Income taxes payable	8,796	67,731
Other liabilities	172,466	134,922
Unearned premiums	1,130,173	1,042,727
Total liabilities	3,566,226	3,313,472
Total equity	2,226,853	2,003,202
Total liabilities and equity	\$ 5,793,079	\$ 5,316,674

Approved by the Board of Directors

Ken E. McCrea
 President and Chief Executive Officer

Delmore C. Crewson
 Chairman, Audit Committee

The accompanying notes constitute an integral part of the consolidated financial statements.



THE WAWANESA MUTUAL INSURANCE COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS

	For the year ended December 31			
	2010		2009	
	('000s)			
Gross premiums written	\$	2,259,543	\$	2,091,657
Premiums ceded		(55,943)		(43,589)
Net premiums written		2,203,600		2,048,068
Increase in unearned premiums		(94,768)		(89,137)
Net premiums earned		2,108,832		1,958,931
Instalment service charges earned		31,458		29,045
		2,140,290		1,987,976
Deduct: Claims incurred	\$	1,641,613	\$	1,575,277
Expenses incurred	540,744	2,182,357	491,439	2,066,716
Underwriting loss		(42,067)		(78,740)
Net investment income (note 4)				
Realized gain on sale of available-for-sale assets		70,837		11,513
Other net investment income		161,582		170,735
		232,419		182,248
Income before income taxes		190,352		103,508
Provision for (recovery of) income taxes (note 8)				
Current	63,914		(31,681)	
Future	(7,223)	56,691	39,800	8,119
Income before the following		133,661		95,389
Income from subsidiary		1,950		4,199
Net income for the year	\$	135,611	\$	99,588

The accompanying notes constitute an integral part of the consolidated financial statements.



THE WAWANESA MUTUAL INSURANCE COMPANY
CONSOLIDATED STATEMENT OF EQUITY

	For the year ended December 31	
	2010	2009
	('000s)	
Retained earnings		
Balance – beginning of year	\$ 1,972,358	\$ 1,872,770
Net income	135,611	99,588
Balance – end of year	2,107,969	1,972,358
Accumulated other comprehensive income (loss) – net of taxes		
Balance – beginning of year	30,844	(146,044)
Total other comprehensive income	88,040	176,888
Balance – end of year	118,884	30,844
Total equity	\$ 2,226,853	\$ 2,003,202
Accumulated other comprehensive income – net of taxes		
Balance – end of year consists of:		
Net unrealized gain on available-for-sale assets	\$ 193,901	\$ 94,022
Unrealized loss on translation of financial statement operations with U.S. dollar functional currency to Canadian dollar reporting	(81,269)	(66,657)
Other comprehensive income on equity investment	6,252	3,479
Balance – end of year	\$ 118,884	\$ 30,844

The accompanying notes constitute an integral part of the consolidated financial statements.

THE WAWANESA MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended December 31	
	2010	2009
	('000s)	
Net income for the year	\$ 135,611	\$ 99,588
Other comprehensive income, net of taxes (note 8)		
Unrealized gain on available-for-sale assets	148,986	226,280
Reclassifications to net income for available-for-sale assets	(49,107)	(6,876)
Unrealized loss on translation of financial statement operations with U.S. dollar functional currency to Canadian dollar reporting currency	(14,612)	(47,515)
Other comprehensive income on equity investment	2,773	4,999
Total other comprehensive income	88,040	176,888
Total comprehensive income	\$ 223,651	\$ 276,476

The accompanying notes constitute an integral part of the consolidated financial statements.



THE WAWANESA MUTUAL INSURANCE COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended December 31	
	2010	2009
	('000s)	
Cash provided by (used in)		
Operating activities		
Receipts		
Premiums received	\$ 2,156,439	\$ 1,994,776
Investment income received	205,747	203,459
	2,362,186	2,198,235
Payments		
Claims paid, net of reinsurance recovered	1,485,633	1,473,019
Expenses paid	543,532	523,244
Income taxes paid (recovered)	162,551	(104,571)
Change in other assets and liabilities	2,338	(17,608)
	2,194,054	1,874,084
Net cash from operating activities	168,132	324,151
Investing activities		
Bonds purchased	(7,568,499)	(6,275,108)
Bonds sold, redeemed or matured	7,406,552	5,958,688
Stocks purchased	(101,087)	(542,757)
Stocks sold or redeemed	88,217	515,589
Intangible assets	(10,930)	(7,842)
Furniture and equipment, net	(603)	(5,207)
Real estate improvements	(1,733)	(3,020)
Other assets, net	(6,150)	(22,054)
Foreign exchange	13,392	29,742
Net cash used in investing activities	(180,841)	(351,969)
Decrease in cash for the year	(12,709)	(27,818)
Bank indebtedness – beginning of year	(40,030)	(12,212)
Bank indebtedness – end of year	\$ (52,739)	\$ (40,030)

The accompanying notes constitute an integral part of the consolidated financial statements.



THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

1 REPORTING RESPONSIBILITIES

The financial statements and accompanying notes are the responsibility of management.

The external auditors of the Company are required to conduct an examination in accordance with Canadian generally accepted auditing standards to enable their reporting to the policyholders as to whether the annual financial statements present fairly, in all material respects, the financial position and results of operations of the Company in accordance with Canadian generally accepted accounting principles.

The Actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. He is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. He is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

Policy liabilities primarily include unearned premiums, unpaid claims and adjustment expenses, the reinsurers' share of unearned premiums and unpaid claims and adjustment expenses and deferred premium acquisition costs. The Appointed Actuary uses the work of the external and internal auditors in verifying data files for valuation purposes.

2 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the Insurance Companies Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (the Superintendent), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these financial statements are summarized in note 3. These accounting policies conform, in all material respects, to Canadian GAAP except that one subsidiary is not consolidated, as described in note 3.

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the periods covered by the financial statements. The principal financial statement components subject to measurement uncertainty include the assessment of other than temporary impairment of available-for-sale investments (note 4), the provision for unpaid claims (note 6) and the carrying value of future tax assets (note 8). Actual results could differ from those estimates.

3 SIGNIFICANT ACCOUNTING POLICIES

Basis of non-consolidation

These financial statements include consolidation of the wholly-owned subsidiary, Wawanesa General Insurance Company. The wholly-owned subsidiary, The Wawanesa Life Insurance Company, is not consolidated because management of the Company has determined that reporting of property and casualty and life insurance operations on a consolidated basis would not provide meaningful presentation. The Wawanesa Life Insurance Company is accounted for by the equity method. Its income is reflected in operations and the cost of the investment is adjusted to include post-acquisition income and is reduced by dividends.



Available-for-sale financial assets

Investments are classified as available-for-sale (AFS). AFS financial assets with quoted prices in an active market are carried at fair value on the balance sheet from the trade date. Fair values of AFS financial assets that do not have a quoted price in an active market are carried at cost, or at an amount below cost as determined by management, giving consideration to external data available. Changes in fair values are recorded, net of income taxes, in other comprehensive income (OCI) until the financial asset is disposed of or has become other than temporarily impaired. When the financial asset is disposed of or has been other than temporarily impaired, the accumulated fair value adjustments recognized in accumulated other comprehensive income (AOCI) are transferred to the statement of operations.

The Company assesses whether an AFS financial asset is other than temporarily impaired by evaluating whether there is a significant or prolonged decline in fair value and there is objective evidence that the investment is impaired and the impairment is other than temporary. When unrealized losses on AFS investments are determined to be other than temporary, the difference between the cost of the investment and its market value is recorded as realized losses on investments in the statement of operations and a corresponding adjustment is made to OCI.

If, subsequent to establishing a provision for impairment of AFS debt securities, a recovery of fair value occurs and such recovery is based on objective evidence of an event occurring after the loss, the previously recognized impairment loss is reversed in the statement of operations. Reversal of impairment losses is not permitted for AFS equity securities.

Loans and receivables

Receivables and Due from Facility Association are classified as loans and receivables. They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Intangible assets

Intangible assets consist of certain acquired and internally developed software, some of which may not have yet been put into use. Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses, if any. Input costs directly attributable to the development of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost can be measured reliably. Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. When the recoverable amount is less than the net carrying value an impairment loss is recognized. Research costs are recognized as an expense in the period incurred.

Intangible assets, once functional, are amortized on a straight-line basis over their useful lives (3–10 years).

Deferred acquisition expenses

Commissions and premium taxes are deferred to the extent that they are considered recoverable and are expensed in the accounting periods in which related premiums are recognized as income. The ultimate recoverability of acquisition expenses is determined without regard to investment income.

Income taxes

Income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates anticipated to be in effect when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences in the carrying value of an asset or liability in the balance sheet and its value for tax purposes. Future income tax assets are recognized to the extent that realization is considered more likely than not.



Financial liabilities

Any such liabilities, other than unpaid claims, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Unpaid claims

The provision for unpaid claims is established by the case method as claims are reported. The estimates are regularly reviewed and updated as additional information on the estimated unpaid claims becomes known and any resulting adjustments are included in the statement of operations. A provision is also made for management's calculation of factors affecting future development of unpaid claims including claims incurred but not reported (IBNR) based on the volume of business currently in force and the historical experience on claims. The unpaid claims are discounted as mandated by the Superintendent.

Salvage and subrogation

Salvage and subrogation recoveries on claims are recorded as a reduction of claims incurred on an accrual basis.

Employee future benefits

The Company maintains defined benefit plans for substantially all employees. The plans provide pensions based on length of service and final average earnings. In addition, the Company provides life insurance, dental and health benefit plans for retired employees.

The costs of these benefits related to current service are charged to operations in the period in which the services are rendered. The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, future cost escalation, retirement ages of employees and other actuarial factors). Past service costs, any net excess actuarial gains or losses over 10% of the greater of the accrued benefit obligation and the market value of the plans assets, together with the transitional assets that resulted on the adoption of the new accounting standards, are amortized over the expected average remaining service lives of the employee group.

The excess of funding pension payments over pension expense is recorded as an asset. Non-pension benefits are unfunded. The accumulated non-pension benefit expense is recorded as a liability.

The Company also provides defined contribution plans for certain employees. Contributions are expensed in the period that they are paid.

Foreign exchange translation

The Company translates the assets, liabilities, income and expenses of its United States branch and its United States subsidiary, both of which are self-sustaining operations, to Canadian dollars on the following basis:

- Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date.
- Income and expense items are translated using the average rate for the month in which they occur.
- Gains and losses resulting from translation are deferred and shown as a separate component of accumulated other comprehensive income (loss).

Premiums earned

Premiums are taken into income on a pro-rata basis over the policy term.

THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

Investment income

Investment income is recorded as it accrues. Dividend income on common and preferred shares is recorded on the ex-dividend date. Gains and losses are determined and recorded as at the trade date, and are calculated on the basis of average cost.

The effective interest rate method is used to amortize premiums or discounts on the purchase of AFS bonds.

4 INVESTMENTS AND RELATED NET INVESTMENT INCOME

a) Fair value of investments

	2010	2009
	('000s)	
Bonds		
Canadian	\$ 2,615,974	\$ 2,400,829
Foreign	805,172	794,868
	<u>3,421,146</u>	<u>3,195,697</u>
Stocks		
Preferred		
Canadian	26,418	33,396
Common		
Canadian	648,302	560,358
Foreign	593,005	550,054
	<u>1,267,725</u>	<u>1,143,808</u>
Total investments	<u>\$ 4,688,871</u>	<u>\$ 4,339,505</u>

AFS bonds and stocks are reported at fair value on the balance sheet. The fair value of bonds and stocks are determined using quoted market bid prices.

b) Fair value hierarchy

Assets and liabilities recorded at fair value in the balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:



- **Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.**

For stocks held in pooled funds, the Company defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the pooled fund, trading volumes are used as an indicator for stocks held outside of pooled funds, and the size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities. Assets measured at fair value and classified as Level 1 include pooled funds, stocks, and all federal government and federal government backed bonds. These bonds are classified as Level 1 as they are traded using quoted prices in an active market, which is reflected in their narrow bid/ask spread. Fair value is based on market price data obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

- **Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).**

Level 2 inputs include quoted prices for assets in markets that are considered less active or inputs other than quoted prices that are observable for the instrument, such as interest rates, yield curves, volatility, prepayment speeds, credit risks and default rates where available. Assets measured at fair value and classified as Level 2 include inactive quoted stocks, provincial bonds, municipal bonds, corporate bonds, and asset-backed securities. Fair value is based on market price data obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

- **Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.**

Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation.

The Company has categorized its assets measured at fair value into the three-level fair value hierarchy as summarized below, based upon the priority of the inputs to the respective valuation technique as defined in the preceding section:

Assets at fair value as at December 31, 2010

	Level 1	Level 2	Total
	('000s)		
Cash equivalents	\$ 25,610	\$ –	\$ 25,610
Bonds	1,001,803	2,419,343	3,421,146
Stocks	1,059,774	207,951	1,267,725
	\$ 2,087,187	\$ 2,627,294	\$ 4,714,481

THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

Assets at fair value as at December 31, 2009			
	Level 1	Level 2	Total
	('000s)		
Cash equivalents	\$ 18,510	\$ –	\$ 18,510
Bonds	1,129,563	2,066,134	3,195,697
Stocks	958,177	185,631	1,143,808
	\$ 2,106,250	\$ 2,251,765	\$ 4,358,015

There are no investments that meet the Level 3 fair value measurement criteria. No investments were transferred between levels in 2010 or 2009.

c) Temporarily impaired AFS assets

The AFS assets disclosed in the following table exhibit evidence of impairment, however, the impairment loss has not been recognized in net income because it is considered temporary. AFS bonds and stocks have generally been identified as temporarily impaired if their cost as at December 31, 2010 was greater than their fair value, resulting in an unrealized loss. Unrealized losses may be due to interest rate fluctuations and/or depressed fair values in sectors which have experienced unusually strong negative market reactions. In connection with the Company's investment management practices and review of its investment holdings, it is believed that the contractual terms of bond investments will be met and/or the Company has the ability to hold these investments until recovery in value.

	2010		2009	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	('000s)		('000s)	
Bonds	\$ 1,193,598	\$ 20,180	\$ 1,640,880	\$ 51,881
Stocks	46,019	10,058	461,724	17,823
Total temporarily impaired financial assets	\$ 1,239,617	\$ 30,238	\$ 2,102,604	\$ 69,704

Included in realized gain on sale of AFS assets are write-downs of AFS financial assets due to other than temporary impairment of \$8,132,000 (2009 – \$1,772,000) for the year ended December 31, 2010.

Recovery of previously recognized write-downs for impaired AFS debt securities in the year was nil.



d) Maturity schedule of fixed-term investments

As at December 31, 2010					
	One year or less	One to five years	Five to ten years	More than ten years	Total
('000s)					
Bonds	\$ 89,728	\$ 1,062,061	\$ 1,387,064	\$ 882,293	\$ 3,421,146

As at December 31, 2009					
	One year or less	One to five years	Five to ten years	More than ten years	Total
('000s)					
Bonds	\$ 62,191	\$ 1,282,631	\$ 956,192	\$ 894,683	\$ 3,195,697

e) Realized gain on sale of AFS assets

		December 31	
		2010	2009
		('000s)	
Bonds			
Canadian	\$	56,724	\$ 64,390
Foreign		(6,197)	(912)
		50,527	63,478
Stocks			
Preferred			
Canadian		(998)	(194)
Common			
Canadian		21,156	8,221
Foreign		152	(59,992)
		20,310	(51,965)
Total realized gain on sale of AFS assets	\$	70,837	\$ 11,513

THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

f) Other net investment income

Other net investment income has the following components:

	2010	2009
	('000s)	
Interest income		
AFS bonds	\$ 136,915	\$ 138,031
Cash, cash equivalents and short-term securities	269	1,279
Dividends on AFS stocks	14,002	18,884
Other income	16,795	16,521
Investment expenses	(6,399)	(3,722)
Interest expense	–	(258)
Total other net investment income	\$ 161,582	\$ 170,735

g) Securities lending

The Company engages in securities lending to generate fee income. Certain securities from its portfolio are loaned to other institutions for short periods. An agreement between the Company and its custodian limits lending activity to approved creditors and specifies suitable types of collateral. The collateral pledged by the borrower exceeds the value of the assets on loan. At December 31, 2010, the Company had securities on loan with a fair value of \$554,142,000 backed by collateral with a fair value of \$571,052,000 (2009 – securities on loan with a fair value of \$729,529,000 were backed by collateral with a fair value of \$753,740,000).

5 INVESTMENT IN SUBSIDIARY

	2010	2009
	('000s)	
The Wawanesa Life Insurance Company, 100% owned	\$ 87,421	\$ 82,698



THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

A summary of the significant balance sheet items for The Wawanesa Life Insurance Company is as follows:

	2010	2009
	('000s)	
Investments	\$ 586,635	\$ 534,814
Accrued investment income	4,069	3,975
Other assets	12,978	8,145
	\$ 603,682	\$ 546,934
Policy liabilities	\$ 483,389	\$ 430,883
Other liabilities	3,699	4,064
Total equity	116,594	111,987
	\$ 603,682	\$ 546,934

A summary of the significant operating results for The Wawanesa Life Insurance Company is as follows:

	2010	2009
	('000s)	
Premium income	\$ 98,529	\$ 88,556
Net investment income	45,236	50,779
	143,765	139,335
Benefits and expenses	142,814	130,724
Income before income taxes	951	8,611
Income taxes	80	3,532
Net income for the year	871	5,079
Other comprehensive income for the year	3,736	6,423
Total comprehensive income for the year	\$ 4,607	\$ 11,502

Net income including transfers from participating policyholders of \$1,950,000 (2009 – \$4,199,000) and other comprehensive income of \$2,773,000 (2009 – \$4,999,000) were allocated to the Company and net income (loss) including transfers to the Company of (\$1,079,000) (2009 – \$880,000) and other comprehensive income of \$963,000 (2009 – \$1,424,000) to the participating policyholders of The Wawanesa Life Insurance Company.



6 UNPAID CLAIMS

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses, expected salvage and subrogation and the related reinsurers' share of each requires an assessment of future claims development. This assessment takes into account the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Company's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the statement of operations for the period in which the change occurred. This estimate does reflect the time value of money as mandated by the Superintendent. In that respect, the Company determines the discount rate based upon the expected return of bonds held in the portfolio that approximates the cash flow requirements of the unpaid claim. The discount rate applied was 3.50% (2009 – 3.95%). To recognize the uncertainty inherent in determining unpaid claim amounts, the Company includes a Provision for Adverse Deviations (PFADs) relating to claim development, reinsurance recoveries and future investment income. The PFADs selected are all within the ranges recommended by the Canadian Institute of Actuaries.

The table below details the provision for unpaid claims by major line of business:

	2010	2009
	('000s)	
Line of business		
Automobile	\$ 1,681,182	\$ 1,557,210
Personal property	344,987	306,004
Commercial property	111,912	107,710
Other	63,971	57,138
Total gross unpaid claims	2,202,052	2,028,062
Reinsurers' portion	83,635	59,670
Net unpaid claims	\$ 2,118,417	\$ 1,968,392



THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

Changes in unpaid claims:

	2010	2009
	('000s)	
Unpaid claims – beginning of year	\$ 2,028,062	\$ 1,870,848
Change in estimates for losses occurring in prior years	(34,910)	(2,775)
Provision for claims occurring in the current year	1,734,563	1,626,347
Paid on claims	(1,525,663)	(1,466,358)
Unpaid claims – end of year	\$ 2,202,052	\$ 2,028,062

Effects of discounting on unpaid claims:

	Undiscounted	Effects of present value	PFAD	Discounted
	('000s)			
2010				
Provision for unpaid claims	\$ 2,182,404	\$ (166,367)	\$ 186,015	\$ 2,202,052
Reinsurers' share of unpaid claims	84,023	(4,180)	3,792	83,635
	\$ 2,098,381	\$ (162,187)	\$ 182,223	\$ 2,118,417
2009				
Provision for unpaid claims	\$ 2,025,339	\$ (173,853)	\$ 176,576	\$ 2,028,062
Reinsurers' share of unpaid claims	60,387	(4,109)	3,392	59,670
	\$ 1,964,952	\$ (169,744)	\$ 173,184	\$ 1,968,392

7 EMPLOYEE FUTURE BENEFITS

Description of benefit plans

The Company has a number of defined benefit and defined contribution plans providing pension and other retirement benefits to most of its employees. Pension benefits are based on length of service and final average earnings and may be indexed at the discretion of the Board of Directors. Other retirement benefit plans are non-contributory health care and life insurance plans.



THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

Total cash payments

Total cash payments for employee future benefits for 2010, consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for unfunded other benefit plans, and cash contributed to defined contribution plans, was \$18,819,000 (2009 – \$18,644,000).

Defined benefit plans

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the Canadian employees defined benefit pension plan for funding purposes was as of December 31, 2009. The next required valuation of the Canadian employees defined benefit pension plan will be as at December 31, 2012. The Canadian employees supplemental plan and the U.S. employees defined benefit pension plan require a valuation as at December 31 each and every year.

Defined benefit plan assets

The percentage of plan assets by major category measured at December 31 is:

	2010	2009
	%	%
Equity securities	63	62
Debt securities	34	35
Other	3	3
	100	100

Reconciliation of the funded status of the benefit plans to the amounts recorded in the financial statements

	Pension benefit plans		Other benefit plans	
	2010	2009	2010	2009
	('000s)		('000s)	
Market value of plan assets	\$ 328,040	\$ 293,634	\$ –	\$ –
Accrued benefit obligation	(433,858)	(384,862)	(57,145)	(43,379)
Funded status of plans – deficit	(105,818)	(91,228)	(57,145)	(43,379)
Balance of unamortized losses	108,337	100,111	20,839	11,918
Accrued benefit asset (liability)	\$ 2,519	\$ 8,883	\$ (36,306)	\$ (31,461)



THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

The accrued benefit asset (liability) is included in the Company's balance sheet as follows:

	Pension benefit plans		Other benefit plans	
	2010	2009	2010	2009
	('000s)		('000s)	
Receivables	\$ 2,519	\$ 8,883	\$ –	\$ –
Other liabilities	–	–	(36,306)	(31,461)
	\$ 2,519	\$ 8,883	\$ (36,306)	\$ (31,461)

Plans with accrued benefit obligations in excess of plan assets

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

	Pension benefit plans		Other benefit plans	
	2010	2009	2010	2009
	('000s)		('000s)	
Accrued benefit obligation	\$ (400,020)	\$ (384,862)	\$ (57,145)	\$ (43,379)
Fair value of plan assets	294,153	293,634	–	–
Funded status – plan deficit	\$ (105,867)	\$ (91,228)	\$ (57,145)	\$ (43,379)

Significant assumptions

The significant weighted average assumptions used in measuring the Company's pension and other obligations as at December 31 are:

	Pension benefit plans		Other benefit plans	
	2010	2009	2010	2009
Accrued benefit obligation:				
Discount rate	4.05%	4.45%	5.80%	6.90%
Rate of compensation increase	4.88%	4.85%	–	–
Benefit costs:				
Discount rate	4.45%	4.10%	6.90%	7.52%
Expected long-term rate of return on plan assets	6.36%	6.39%	–	–
Rate of compensation increase	4.85%	4.20%	–	–
Assumed health care cost trend rates*	–	–	7.30%	7.57%

*The projected health care cost trend rate will decline to the ultimate rate of 4.47% in 2030.



THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

Benefits paid

Benefits paid were as follows:

	2010	2009
	('000s)	
Plans providing pension benefits	\$ 9,147	\$ 8,636
Plans providing other benefits	870	751
	\$ 10,017	\$ 9,387

Employee future benefit costs recognized in the year

The total cost recognized for the Company's defined benefit plans is as follows:

	2010	2009
	('000s)	
Plans providing pension benefits	\$ 22,031	\$ 19,099
Plans providing other benefits	5,217	3,680
	\$ 27,248	\$ 22,779

Defined contribution plans

The total cost recognized for the Company's defined contribution plans is as follows:

	2010	2009
	('000s)	
Plans providing pension benefits	\$ 610	\$ 670

During the year, the Company funded its pension plans in excess of statutory requirements.



THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

8 INCOME TAXES

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2010	2009
	('000s)	
Earnings before income taxes	\$ 190,352	\$ 103,508
Combined statutory tax rate	29.47%	30.87%
Tax payable based on statutory tax rate	56,097	31,953
Effect of:		
Permanent differences	(3,342)	(5,584)
Legislative income tax act changes	–	(4,906)
Future income tax rate changes	792	1,822
Realization of future tax asset previously not recorded	–	(20,361)
Capital taxes	100	104
Other	3,044	5,091
	\$ 56,691	\$ 8,119
Provision for (recovery of) income taxes		
Current	\$ 63,914	\$ (31,681)
Future	(7,223)	39,800
	\$ 56,691	\$ 8,119



THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

Future income tax assets and liabilities consist of temporary differences between the accounting and tax basis of assets and liabilities as follows:

	2010	2009
	('000s)	
Future income tax assets (liabilities)		
Invested assets	\$ (13,769)	\$ (14,365)
Policy liabilities and other policy reserves	23,297	21,135
Employee future benefits	8,583	5,842
Other assets	1,990	2,690
	\$ 20,101	\$ 15,302

The Company expects that the future income tax assets will be realized in the normal course of operations.

Income taxes included in OCI

Other comprehensive income included on the statement of comprehensive income is presented net of income taxes. The following income tax amounts are included in each component of other comprehensive income for the year ended December 31:

	2010	2009
	('000s)	
Unrealized gains on AFS assets	\$ 63,855	\$ 103,438
Reclassifications to net income for AFS assets	(21,730)	(4,637)
Unrealized loss on translation of financial statement operations with U.S. dollar functional currency to Canadian dollar reporting currency	(3,154)	(10,401)
Other comprehensive income on equity investment	1,176	2,242
Total provision for income taxes included in OCI	\$ 40,147	\$ 90,642

9 REINSURANCE

The Company has reinsurance in force during the year to limit its liability as follows:

- In the event of a series of claims arising out of a single occurrence the Company has obtained reinsurance with an upper amount of \$1,000,000,000, which limited its liability to \$30,000,000 in the event of a series of claims arising out of a single occurrence.
- Aggregate protection up to \$75,000,000 after satisfaction of a \$100,000,000 deductible. This deductible is based on an accumulation of all losses subject to the treaty that exceed \$1,000,000 and are less than \$30,000,000.



THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

- In the event of a single liability claim exceeding \$5,000,000, the Company has obtained reinsurance with an upper amount of \$15,000,000 for each occurrence, with a maximum Reinsurer's liability of \$60,000,000 on all such occurrences during the term of the contract. This contract became effective October 15, 2010.

Certain figures in these financial statements are shown net of the following amounts related to reinsurance ceded to other companies.

	2010	2009
	('000s)	
Net premiums ceded on an earned basis	\$ 55,811	\$ 43,265
Net claims and adjustment expenses ceded	\$ 63,863	\$ 65,029

10 CONTINGENT LIABILITIES

The Company has settled some claims by purchasing annuities (structured settlements) from life insurers. The Company guarantees the future annuity payments and thus is exposed to a credit risk to the extent any of the life insurers fail to fulfill their obligations. The risk is managed by acquiring annuities from several Canadian life insurers with proven financial stability. To December 31, 2010, no information has come to the Company's attention to suggest any financial weakness in life insurers from which it has purchased annuities. Consequently, no provision for credit risk is required. The credit risk exposure is estimated at the original purchase price of the annuities of \$85,417,000 (2009 – \$76,232,000). The net risk to the Company is the credit risk related to the life insurance companies that the annuities are purchased from. This risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan. No defaults have occurred, and the Company considers the possibility of default to be remote.

11 RELATED PARTY TRANSACTIONS

The Company has the following transactions with its wholly-owned subsidiary, The Wawanesa Life Insurance Company:

- The Company recovers the cost of expenses paid on behalf of or shared with the subsidiary totalling \$5,665,000 (2009 – \$12,197,000).
- The Company pays commissions on behalf of its brokers to investment accounts maintained by the subsidiary of \$11,582,000 (2009 – \$10,214,000).
- The Company purchases group employee benefits from the subsidiary at a cost of \$6,092,000 (2009 – \$5,561,000).

Balances between the Company and its subsidiary are settled on a regular basis and the outstanding amounts are immaterial at December 31, 2010 and 2009.

12 PREMIUM RATE REGULATION

Substantially all of the Company's automobile business and its United States property business are subject to rate regulation by various provincial and state regulators. This business comprises approximately 64% (2009 – 65%) of gross premiums written.



THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

Regulation of premium rates is based on the cost of providing insurance coverage which recognizes claims and other costs including anticipated profit margins. Insurance premiums can be subject to mandatory rate rollbacks and mandatory rate assessments imposed by provincial or state legislation or regulation. This could result in lower future premium rates or reductions to premium rates charged by the Company in prior periods. In addition, the Company is required, under the legislation of certain jurisdictions, to participate in risk sharing pools which may impact positively or negatively upon underwriting results. The impact of the participation is immaterial to the overall financial statements.

At various points throughout the year, the Company will have applications pending with certain regulators for automobile premium rate changes. All are in the normal course of business. The Company is not aware of any proposed or pending rate rollbacks related to prior years.

13 CAPITAL MANAGEMENT

The Company's capital management objective is to ensure that the Company is capitalized in a manner which provides a strong financial position for its policyholders and at the same time, exceed the regulatory capital requirements. Annually, the Board of Directors review available capital as defined for regulatory purposes to ensure it is meeting regulatory requirements. Management performs a similar review on a quarterly basis.

The capital structure of the Company is comprised solely of equity.

The Company is a Canadian property and casualty insurance company. Accordingly it is subject to regulation by the Office of the Superintendent of Financial Institutions (OSFI). OSFI requires Canadian property and casualty insurance companies to maintain a level of capital sufficient to achieve a target of 150% based on a Minimum Capital Test (MCT) ratio. As at December 31, 2010, the Company's MCT was in compliance with the minimum capital required.

The Wawanesa Life Insurance Company, a wholly-owned subsidiary of the Company (note 5), is a Canadian life insurance company. As a Canadian life insurance company, it is also subject to regulation by OSFI and is required to meet the Minimum Continuing Capital and Surplus Requirements (MCCSR) as established by OSFI. OSFI expects life insurance companies to maintain a minimum capital ratio of 150%. As at December 31, 2010 The Wawanesa Life Insurance Company's minimum capital ratio was in compliance with the minimum capital required.

The Company has operations based in the United States. The Company has a branch, as well as a wholly-owned subsidiary, Wawanesa General Insurance Company, which are regulated by the California Department of Insurance and subject to the capital requirements as measured by the National Association of Insurance Commissioners (NAIC). The NAIC utilizes a risk based capital formula to assess compliance with its capital requirements. The California Department of Insurance requires that the Total Adjusted Capital of American property and casualty insurance companies not fall below 200% of the Authorized Control Level as measured by NAIC. As at December 31, 2010, the branch and the wholly-owned subsidiary were in compliance with the minimum capital required.

14 FINANCIAL RISK MANAGEMENT

The Board of Directors ensures that management has put appropriate risk management processes in place. Through the Audit Committee, the Board oversees such risk management procedures and controls. Management provides updates to the Audit Committee on a quarterly basis with respect to risk management.

The most significant risks that the Company must manage with respect to unpaid claims and other financial instruments are product and pricing, underwriting and liability, catastrophe and reinsurance, credit, market and liquidity risks.



Product and pricing risk

Product and pricing risk is the risk of financial loss from entering into insurance contracts when the liabilities assumed exceed the expectation reflected in the pricing of the insurance product. The Company prices its products by taking into account several factors including claims frequency, severity trends, product line expense ratios, special risk factors, capital requirements and investment income. These factors are reviewed and adjusted as needed on a regular basis to ensure they are reflective of current trends and market climate. For property insurance in California and automobile insurance in all regions, pricing must be submitted to each jurisdiction's regulator.

In some instances, the Company may choose to adjust pricing below what it feels is acceptable in order to maintain a competitive position. However, the Company attempts to maintain a pricing level that ensures it is able to produce an acceptable return.

Underwriting and liability risk

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the retention and transfer of risks, the reserving and adjudication of claims, and the management of contractual and non-contractual product options.

The Company has specific underwriting guidelines for declining to issue, terminating, or refusing to renew a contract for each line of business in all jurisdictions. The underwriting guidelines for risk eligibility are developed in cooperation between corporate underwriting staff and the specific regional underwriting department. These guidelines must be developed in consideration of jurisdictional underwriting rule restrictions, particularly for automobile insurance. The Company continually reviews its underwriting rules and complies with evolving regulation on restricted criteria. The Company considers stability, fairness and the expectations of its existing and potential policyholders when making deliberate changes to its underwriting rules.

The Company establishes a line guide that is utilized to ensure that the limits of insurance for a particular risk do not exceed the Company's net retention or maximum written limits and the proper approval authority for the risk is obtained. Net retention is the maximum amount of insurance that the Company will retain on a single exposure. Coverage in excess of its net retention is reinsured up to its maximum written limits.

Regular audits of the Company's underwriting guidelines and workflow process are conducted by branch and corporate management and more formally by the Company's internal audit department. Internal audit's objectives are to review the internal controls and workflows in the claims, underwriting and accounting areas. This is to ensure the areas reviewed are adequately controlled in accordance with Company policy. The findings in these audits are shared with senior management and the applicable branch management and appropriate actions are taken.

Catastrophe and reinsurance risk

The Company has in place a comprehensive reinsurance program designed to protect the organization from the impact of catastrophe risk. This program provides reinsurance coverage in the event of a covered loss up to \$1,000,000,000 subject to an appropriate deductible. In determining the protection purchased, the Company analyzes its exposure to these risks (primarily earthquake and wind/hail) on an annual basis using state-of-the-art modeling provided through RMS. To ensure that the reinsurance provided is collectible, the Company limits participation to reinsurers that are A rated or better based on A. M. Best or Standard & Poor's rating.

The Board of Directors has approved and annually reviews the Reinsurance Policy which deals with the types of reinsurance programs placed and the practices management follows in managing and placing these programs.



THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

At December 31, 2010, the Company had net outstanding balances from reinsurers of \$71,510,000 (2009 – \$56,401,000). All amounts are with reinsurers with a credit rating of A or higher.

Credit risk

Credit risk is the possibility of financial loss, resulting from the failure of a debtor to honour its obligation to the Company.

The following table summarizes the Company's maximum exposure to credit risk on the balance sheet. The maximum credit exposure is the carrying value of the asset net of any allowances for loss.

	2010	2009
	('000s)	
Bonds		
Federal	\$ 1,001,803	\$ 1,129,563
Provincial	721,063	423,988
Municipal	91,348	15,886
Corporate rated A or higher	1,271,586	1,365,516
Corporate rated below A	335,346	260,744
	3,421,146	3,195,697
Receivables	669,179	589,578
Due from Facility Association	6,198	12,148
Maximum credit risk exposure on the balance sheet	\$ 4,096,523	\$ 3,797,423

The Company is exposed to credit risk principally through its investment in fixed income securities and balances receivable from policyholders, brokers, and reinsurers.

The Company's Investment Policy Statements, which are approved by the Investment Committee of the Board of Directors, limit the credit risk of the bond portfolios by requiring sound asset diversification, restricting the amount exposed to any one issuer and requiring portfolios of high quality. The portfolios are monitored regularly and reviewed quarterly with the Investment Committee.

As at December 31, 2010, 90.20% (2009 – 91.84%) of the Company's investments in fixed income securities were assigned a rating of A or better by either Dominion Bond Rating Service or Moody's Investor Services.

The Company monitors its exposure to brokers and has procedures to ensure that it works only with brokers who maintain their account on a current basis.

There are no material financial assets that are past due as at December 31, 2010.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, equity risk and currency risk.



(i) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on fixed income securities. Changes in interest rates will affect the fair value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates the opposite is true. Because investments are classified as AFS, these increases and decreases in fixed income securities will result in corresponding increases and decreases in other comprehensive income until the securities are sold and any gain or loss is realized or the securities are written down to reflect an other than temporary decline in value. The primary technique for measuring interest rate risk related to fixed income securities is duration analysis.

Changes in interest rates also have an impact on the rate used to discount unpaid claims. Consequently, changes in interest rates will affect the carrying value of the unpaid claims. During periods of rising interest rates, the carrying value of unpaid claims will generally decrease and net income will increase. During periods of declining interest rates the opposite is true.

The approximate impact before income taxes of an increase of 100 basis points in the interest yields would increase the net income of the Company by \$46,517,000 (2009 – \$42,418,000) and decrease the other comprehensive income of the Company by \$220,409,000 (2009 – \$195,087,000). The approximate impact before income taxes of a decrease of 100 basis points in the interest yields would decrease the net income of the Company by \$48,893,000 (2009 – \$44,833,000) and increase other comprehensive income of the Company by \$218,880,000 (2009 – \$194,019,000).

The Company's Investment Policy Statements outline the duration of each fund to be maintained within a specified range. Interest rate risk is regularly monitored by management and compliance with the Investment Policy Statements is reported to the Investment Committee on a quarterly basis.

(ii) Equity risk

Equity market fluctuation risk is where fluctuations in the value of equity securities affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock and bond markets and, consequently, the value of the equity securities and fixed income securities held.

The Company's equity portfolios are managed by independent professional investment managers. The Company has investment policies regarding diversification by geographic sector and capitalization to limit and monitor its individual issuers' equity exposure. Aggregate exposure to single issuers and total equity positions are monitored on a quarterly basis.

(iii) Currency risk

Currency risk represents the risk that the Company incurs losses due to exposure to foreign currency fluctuations. Changes in the U.S. to Canadian dollar foreign currency exchange rate impact the fair value of securities denominated in U.S. dollars and the fair value of other financial instruments held by the U.S. operations. The U.S. operations hold their investments in U.S. dollar denominated securities and the Canadian operations hold securities denominated in Canadian dollars. The Company's Investment Policy Statements limit investments denominated in foreign currencies. Compliance with the limits set by the Company's Investment Policy Statements is reported to the Investment Committee on a quarterly basis.

THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

The approximate impact before income taxes of an increase of 10% in the U.S. dollar against the Canadian dollar would increase the net income of the Company by \$261,000 (2009 – \$971,000) and increase the other comprehensive income of the Company by \$58,416,000 (2009 – \$49,967,000). The approximate impact before income taxes of a decrease of 10% in the U.S. dollar against the Canadian dollar would decrease the net income of the Company by \$261,000 (2009 – \$971,000) and decrease the other comprehensive income of the Company by \$58,416,000 (2009 – \$49,967,000).

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial obligations without raising funds at unfavourable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business are met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

Liquidity guidelines have been established by the Investment Committee and are set out in the Company's Investment Policy Statements. The guidelines require that a portion of the investment portfolio be in readily marketable securities. Liquidity risk is regularly monitored by management and reported to the Investment Committee of the Board on a quarterly basis.

The following table summarizes the undiscounted cash flows of financial assets and liabilities by contractual or expected maturity.

As at December 31, 2010					
	One year or less	One to two years	Two to five years	More than five years	Total
	('000s)				
Financial assets					
Bonds	\$ 3,421,146	\$ –	\$ –	\$ –	\$ 3,421,146
Stocks – preferred	26,418	–	–	–	26,418
Stocks – common	1,241,307	–	–	–	1,241,307
Accrued investment income	25,657	–	–	–	25,657
Receivables	545,588	6,092	16,907	17,379	585,966
	\$ 5,260,116	\$ 6,092	\$ 16,907	\$ 17,379	\$ 5,300,494
Financial liabilities					
Bank indebtedness	\$ 52,739	\$ –	\$ –	\$ –	\$ 52,739
Unpaid claims	771,404	209,069	589,140	528,768	2,098,381
Other financial liabilities	128,861	–	–	–	128,861
	\$ 953,004	\$ 209,069	\$ 589,140	\$ 528,768	\$ 2,279,981



THE WAWANESA MUTUAL INSURANCE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

As at December 31, 2009

	One year or less	One to two years	Two to five years	More than five years	Total
	('000s)				
Financial assets					
Bonds	\$ 3,195,697	\$ —	\$ —	\$ —	\$ 3,195,697
Stocks – preferred	33,396	—	—	—	33,396
Stocks – common	1,110,412	—	—	—	1,110,412
Accrued investment income	24,702	—	—	—	24,702
Receivables	489,388	4,899	14,174	17,921	526,382
	<u>\$ 4,853,595</u>	<u>\$ 4,899</u>	<u>\$ 14,174</u>	<u>\$ 17,921</u>	<u>\$ 4,890,589</u>
Financial liabilities					
Bank indebtedness	\$ 40,030	\$ —	\$ —	\$ —	\$ 40,030
Unpaid claims	690,425	228,211	593,845	452,471	1,964,952
Other financial liabilities	156,149	—	—	—	156,149
	<u>\$ 886,604</u>	<u>\$ 228,211</u>	<u>\$ 593,845</u>	<u>\$ 452,471</u>	<u>\$ 2,161,131</u>

15 COMPARATIVE FIGURES

Certain of the prior year's figures have been restated for comparative purposes.



THE WAWANESA LIFE INSURANCE COMPANY

INDEPENDENT AUDITOR'S REPORT

Incorporated July 7, 1960

February 22, 2011

Head Office
Wawanesa, Manitoba

Executive Office
400-200 Main Street
Winnipeg, Manitoba

OFFICERS AND MANAGEMENT

Corporate

K. E. McCrea, CA, FLMI
President and Chief Executive Officer

M. K. Nemeth, CA, FLMI, GBA
Vice President and Chief Operating Officer

G. N. Bass, Q.C.
Vice President, General Counsel and Secretary

I. R. MacDonald, FSA, FCIA
Vice President and Actuary

C. R. Loeppky, BScCS
Vice President, Information Services

T. L. Nelson, FLMI/M, CHRP, CIP
Vice President, Human Resources

E. Elvebo, CA
Manager, Corporate Reporting

P. M. Horncastle, CGA
Controller

P. R. Mulaire, CMA, FCIP, CIA
Manager, Internal Audit

K. J. Richtik, FSA, FCIA
Manager, Actuarial Financial Reporting

Insurance Operations

G. G. Sadler, CLU, ChFC, RHU
Director, Individual Sales and Marketing

M. M. Nolin, ALHC
Manager, Group Claims

D. M. Smook
Manager, National Group Sales and Marketing

D. I. Verwey
Manager, Group Underwriting and
Policy Administration

A. E. Waller, MBA, CFP, ChFC, CLU, FALU
Manager, Individual Life Administration

Medical Director

Dr. R. B. Boyd, MD

TO THE SHAREHOLDER AND POLICYHOLDERS OF THE WAWANESA LIFE INSURANCE COMPANY

We have audited the accompanying financial statements of The Wawanesa Life Insurance Company, which comprise the balance sheets and statements of segregated funds net assets as at December 31, 2010 and 2009 and the statements of operations, comprehensive income, equity, cash flows and changes in segregated fund net assets for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



THE WAWANESA LIFE INSURANCE COMPANY INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Wawanesa Life Insurance Company as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Winnipeg, Manitoba

PRICEWATERHOUSECOOPERS 

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

THE WAWANESA LIFE INSURANCE COMPANY APPOINTED ACTUARY'S REPORT

February 22, 2011

TO THE SHAREHOLDER AND POLICYHOLDERS OF THE WAWANESA LIFE INSURANCE COMPANY

I have valued the policy liabilities of The Wawanesa Life Insurance Company for its balance sheet at December 31, 2010 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the result of the valuation.

Ian R. MacDonald

Ian R. MacDonald
Fellow, Canadian Institute of Actuaries
Winnipeg, Manitoba

BRANCH OFFICES

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S. F. Engmann
Regional Life Manager

B. R. Wyne, MBA
Regional Group Manager



THE WAWANESA LIFE INSURANCE COMPANY
BALANCE SHEET

	As at December 31	
	2010	2009
	('000s)	
Assets		
Cash	\$ 5,075	\$ 3,715
Investments (note 4)	586,635	534,814
Outstanding premiums	467	615
Investment income due and accrued	4,069	3,975
Income taxes recoverable	2,498	–
Future income taxes (note 8)	–	213
Furniture and equipment – at cost, less accumulated amortization	692	590
Other assets	4,246	3,012
Total general fund assets	\$ 603,682	\$ 546,934
Segregated funds net assets (note 9)	\$ 167,842	\$ 139,896
Liabilities		
Policy liabilities (note 6)	\$ 483,389	\$ 430,883
Other liabilities	3,411	2,978
Income taxes payable	–	1,086
Future income taxes (note 8)	288	–
Total general fund liabilities	487,088	434,947
Total equity	116,594	111,987
Total general fund liabilities and equity	\$ 603,682	\$ 546,934
Segregated fund contract liabilities (note 9)	\$ 167,842	\$ 139,896

Approved by the Board of Directors

Ken E. McCrea
President and Chief Executive Officer

Delmore C. Crewson
Chairman, Audit Committee

The accompanying notes constitute an integral part of the financial statements.



THE WAWANESA LIFE INSURANCE COMPANY
STATEMENT OF OPERATIONS

	For the year ended December 31	
	2010	2009
	('000s)	
Income		
Premiums		
Life insurance	\$ 43,129	\$ 42,030
Health insurance	22,918	19,124
Annuities	32,482	27,402
	98,529	88,556
Net investment income		
Change in fair value of held-for-trading assets	21,325	26,863
Realized gains on sales of available-for-sale assets	966	1,252
Other net investment income (note 4)	22,945	22,664
	143,765	139,335
Benefits and expenses		
Amounts paid or credited to policyholders and their beneficiaries		
Death, disability and health benefits	29,642	25,185
Annuity payments	3,444	3,571
Maturities and surrenders	28,418	27,010
Dividends and interest	4,312	4,364
Increase in actuarial liabilities	49,976	44,884
	115,792	105,014
Commissions	9,579	9,040
Operating expenses	15,482	14,887
Taxes and licences	1,961	1,783
	142,814	130,724
Income before income taxes	951	8,611
Provision for (recovery of) income taxes (note 8)		
Current	(422)	6,630
Future	502	(3,098)
	80	3,532
Net income for the year	\$ 871	\$ 5,079

The accompanying notes constitute an integral part of the financial statements.



THE WAWANESA LIFE INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME

	For the year ended December 31	
	2010	2009
	('000s)	
Net income for the year	\$ 871	\$ 5,079
Other comprehensive income – net of taxes (note 8)		
Change in unrealized gains on available-for-sale assets	4,414	7,288
Reclassifications to net income for available-for-sale assets	(678)	(865)
Total other comprehensive income	3,736	6,423
Total comprehensive income	\$ 4,607	\$ 11,502
Allocation of net income (loss)		
Participating policyholders' account	\$ (623)	\$ 1,347
Shareholder account	1,494	3,732
Allocation of other comprehensive income		
Participating policyholders' account	963	1,424
Shareholder account	2,773	4,999
	\$ 4,607	\$ 11,502

The accompanying notes constitute an integral part of the financial statements.



THE WAWANESA LIFE INSURANCE COMPANY

STATEMENT OF EQUITY

	For the year ended December 31			
	2010			2009
	Participating policyholders	Shareholder	Total	Total
	('000s)			
Share capital (note 10)	\$ –	\$ 26,500	\$ 26,500	\$ 26,500
Policyholders' account/ retained earnings				
Balance – beginning of year	29,082	52,719	81,801	76,722
Net (loss) income	(623)	1,494	871	5,079
Transfer (note 11)	(456)	456	–	–
Balance – end of year	28,003	54,669	82,672	81,801
Accumulated other comprehensive income – net of taxes (note 8)				
Balance – beginning of year	207	3,479	3,686	(2,737)
Total other comprehensive income	963	2,773	3,736	6,423
Balance –end of year	1,170	6,252	7,422	3,686
Total retained earnings and accumulated other comprehensive income	29,173	60,921	90,094	85,487
Total equity	\$ 29,173	\$ 87,421	\$ 116,594	\$ 111,987
Accumulated other comprehensive income – net of taxes (note 8)				
Balance – end of year consists of:				
Net unrealized gains on available-for-sale assets	\$ 1,170	\$ 6,252	\$ 7,422	\$ 3,686
Balance – end of year	\$ 1,170	\$ 6,252	\$ 7,422	\$ 3,686

The accompanying notes constitute an integral part of the financial statements.



THE WAWANESA LIFE INSURANCE COMPANY
STATEMENT OF CASH FLOWS

	For the year ended December 31	
	2010	2009
	('000s)	
Cash provided by (used in)		
Operating activities		
Receipts		
Premium and annuity considerations	\$ 95,963	\$ 86,368
Investment income received	21,691	22,008
Other revenue	2,714	2,198
	120,368	110,574
Payments		
Benefits and annuity payments	49,206	45,723
Net transfers to segregated funds	9,887	10,301
Insurance expenses and taxes	31,186	32,877
Dividends and interest to policyholders	4,312	4,364
Change in other assets and liabilities	1,115	210
	95,706	93,475
Cash provided by operating activities	24,662	17,099
Investing activities		
Purchases, bonds and stocks	(337,293)	(238,242)
Disposals, bonds and stocks	309,588	215,327
Advances, mortgage and policy loans	(3,847)	(5,965)
Repayments, mortgage and policy loans	8,500	9,058
Furniture and equipment, net	(250)	(609)
Cash used in investing activities	(23,302)	(20,431)
Increase (decrease) in cash for the year	1,360	(3,332)
Cash – beginning of year	3,715	7,047
Cash – end of year	\$ 5,075	\$ 3,715
Income taxes paid	\$ 4,744	\$ 6,549

The accompanying notes constitute an integral part of the financial statements.



THE WAWANESA LIFE INSURANCE COMPANY

STATEMENT OF CHANGES IN SEGREGATED FUNDS NET ASSETS

	For the year ended December 31	
	2010	2009
	('000s)	
Additions to segregated funds		
Proceeds from sale of units	\$ 24,545	\$ 22,271
Unrealized appreciation of investments	16,123	24,909
Net realized gains (losses)	440	(221)
Investment income	4,015	3,465
	45,123	50,424
Deductions from segregated funds		
Payments on redemption of units	14,660	11,971
Management fees	2,517	1,967
	17,177	13,938
Net increase to segregated funds for the year	27,946	36,486
Segregated funds net assets – beginning of year	139,896	103,410
Segregated funds net assets – end of year	\$ 167,842	\$ 139,896

STATEMENT OF SEGREGATED FUNDS NET ASSETS

	As at December 31	
	2010	2009
	('000s)	
Assets		
Institutional Pooled Fund units	\$ 167,842	\$ 140,172
Liabilities		
Amounts due to The Wawanesa Life Insurance Company	125	44
Amounts due (from) to the investment manager for units purchased	(125)	232
Net assets attributed to segregated funds policyholders	\$ 167,842	\$ 139,896

The accompanying notes constitute an integral part of the financial statements.



THE WAWANESA LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

1 REPORTING RESPONSIBILITIES

The financial statements and accompanying notes are the responsibility of management.

The external auditors of the Company are required to conduct an examination in accordance with Canadian generally accepted auditing standards to enable their reporting to the policyholders and shareholder as to whether the annual financial statements present fairly, in all material respects, the financial position and results of operations of the Company in accordance with Canadian generally accepted accounting principles.

The Actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. He is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. He is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

The Appointed Actuary uses the work of the external and internal auditors in verifying data files for valuation purposes.

2 BASIS OF PRESENTATION

The Wawanesa Life Insurance Company (referred to as the Company) is a wholly-owned subsidiary of The Wawanesa Mutual Insurance Company (the Parent company). These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and directives of the Office of the Superintendent of Financial Institutions Canada (OSFI or the Superintendent). None of the accounting requirements of OSFI are exceptions to Canadian GAAP. The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies conform, in all material respects, to Canadian GAAP.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the periods covered by the financial statements. The principal financial statement components subject to measurement uncertainty include the fair value of investments and the assessment of other than temporary impairment of available-for-sale (AFS) investments (note 4), the provision for policy liabilities (note 6) and the carrying value of future tax liabilities (note 8). Actual results could differ from those estimates. Changes in estimates are recorded in the accounting period in which they are determined.

3 SIGNIFICANT ACCOUNTING POLICIES

Investments

Bonds and stocks are designated as AFS or held-for-trading (HFT). The Company uses trade date accounting for purchases and sales of these investments.

AFS financial assets

AFS financial assets with quoted prices in an active market are carried at fair value on the balance sheet from the trade date. Fair values of AFS financial assets that do not have a quoted price in an active market are carried at cost, or at an amount below cost as determined by management, giving consideration to external data available.



Changes in fair values are recorded, net of income taxes, in other comprehensive income (OCI) until the financial asset is disposed of or has become other than temporarily impaired. When the financial asset is disposed of or has been other than temporarily impaired, the accumulated fair value adjustments, net of taxes, recognized in accumulated other comprehensive income (AOCI) are transferred to the statement of operations.

A provision for impairment of AFS financial assets is established when there is objective evidence that the investment is impaired and the impairment is other than temporary. The Company assesses whether an AFS financial asset is other than temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as fundamental credit problems of the issuer such that it is probable that the Company will not be able to receive or collect all amounts due according to the contractual terms of the investment.

If the impairment is caused, in whole or in part, by credit spreads widening, the change in credit spreads is deemed to be "interest related". "Interest related" includes a declining value due to increases in the risk free interest rate and general credit spread widening. Credit spreads can widen or contract for a variety of reasons, including supply/demand imbalances in the marketplace or perceived higher/lower risk of an entire sector. Such impairments are deemed to be temporary.

If subsequent to establishing a provision for impairment of AFS debt securities, a recovery of fair value occurs and such recovery is based on objective evidence of an event occurring after the loss, the previously recognized impairment loss is reversed in the statement of operations. Reversal of impairment losses is not permitted for AFS equity securities.

HFT financial assets

HFT financial assets are carried at fair value on the balance sheet from the trade date. Realized gains and losses and unrealized changes in fair values are recorded in net income. HFT financial assets are purchased or incurred with the intention of generating profits in the near term or are designated as such by the Company. The Company has designated all bonds and stocks that support the policy liabilities as HFT. Fair values of HFT financial assets that do not have a quoted price in an active market are carried at cost, or an amount below cost as determined by management, giving consideration to external data available.

Mortgages and policy loans

Financial assets classified as loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment losses, if any. Policy loans are not subject to impairment losses because they are fully secured by the policy values on which the loans are made.

Segregated funds

Segregated funds are investment options available to annuity policyholders in which the benefit amount is directly linked to the fair value of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Company, and the annuity policyholder has no direct access to the specific assets, the contractual arrangements are such that the annuity policyholder bears the risk and rewards of the fund's investment performance. In addition, certain annuity policies have minimum maturity value and death benefit guarantees from the Company. Payments for such guarantees are included in amounts paid or credited to policyholders and their beneficiaries in the statement of operations. Additional liabilities, if any, associated with these minimum guarantees are recorded in actuarial liabilities. The Company derives fee income from segregated funds, which is included in annuity premiums on the statement of operations. Policyholder transfers between general funds and segregated funds are included in maturities and surrenders on the statement of operations. Investments held in segregated funds are carried at fair value.



Furniture and equipment

Furniture and equipment are carried at cost less accumulated amortization. Amortization is computed using the declining balance method at a rate of 20% for furniture and equipment and 30% for computer equipment. Amortization charged to operating expenses in the statement of operations totalled \$148,000 in 2010 (2009 – \$20,000).

Financial liabilities

Any such liabilities, other than actuarial liabilities, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Actuarial liabilities are described in notes 1 and 6.

Income taxes

Income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates anticipated to be in effect when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences in the carrying value of an asset or liability in the balance sheet and its value for tax purposes. Future income tax assets are recognized to the extent that realization is considered more likely than not.

In determining the impact of taxes, the Company is also required to comply with the standards of both the Canadian Institute of Actuaries and the CICA. Future income tax assets and/or liabilities arising from temporary timing differences are computed without discounting. The actuarial liabilities include an amount to convert future income taxes to a discounted basis for timing differences related to policy liabilities.

Premium income and benefits expense

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. Expenses are recognized when incurred. Actuarial liabilities are computed at the end of each period, resulting in benefits and expenses matching with the premium income.

Other net investment income

Interest and dividend income is recognized on an accrual basis. Dividend income on stocks is recorded on the ex-dividend date. The effective interest rate method is used to amortize premiums or discounts over the life of bonds. Investment expenses are recognized when incurred.

Employee future benefits

Employees of the Company are provided with pension and post employment benefits on a defined benefit basis through membership in plans offered by The Wawanesa Mutual Insurance Company. The Wawanesa Mutual Insurance Company owns 100% of the issued and outstanding shares of the Company. The obligation for funding of these plans rests with The Wawanesa Mutual Insurance Company. The Company is charged appropriate annual service costs for all benefits and remits these amounts to The Wawanesa Mutual Insurance Company.



THE WAWANESA LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

4 INVESTMENTS AND INVESTMENT INCOME

The carrying and fair value of the Company's investment portfolio by financial instrument classification as at December 31 is as follows:

	2010				2009		
	Designated as HFT	Classified as AFS	Classified as loans and receivables	Total carrying value	Total fair value	Total carrying value	Total fair value
	('000s)				('000s)		
Bonds	\$ 387,130	\$ 94,740	\$ –	\$ 481,870	\$ 481,870	\$ 436,489	\$ 436,489
Stocks	47,244	23,262	–	70,506	70,506	59,413	59,413
Mortgages	–	–	18,851	18,851	19,356	24,289	25,055
Policy loans	–	–	15,408	15,408	15,408	14,623	14,623
	\$ 434,374	\$ 118,002	\$ 34,259	\$ 586,635	\$ 587,140	\$ 534,814	\$ 535,580

Bonds are comprised of government 53.1% (2009 – 48.7%) and corporate 46.9% (2009 – 51.3%) with effective interest rates of 0.8% to 15.9% (2009 – 0.3% to 15.9%). Maturities range from less than one year to 36 years (2009 – less than one year to 41 years). Bonds with a quality rating of BBB or higher represent 98.7% (2009 – 98.9%) of the portfolio. Bonds rated A or higher constitute 96.2% (2009 – 96.1%) of the portfolio.

The fair value for publicly traded bonds is determined using quoted market bid prices. HFT and AFS bonds are reported at fair value as of December 31, 2010, the last market trading day of the year. The carrying value of these bonds is equal to their fair value.

Stocks are comprised of units in institutional pooled funds. These funds include investments in common stock of major Canadian, U.S. and International companies and in Canadian corporate and government bonds. In general, stocks have no fixed maturity date and are not exposed directly to interest rate risk. Dividend yields on these funds range from 1.8% to 3.1% (2009 – 1.9% to 3.3%).

The fair value for stocks is valued at the underlying mutual funds' transactional net asset value per unit at the end of each valuation day. Bid prices are not available for the underlying funds. HFT and AFS stocks are reported at fair value as of December 31, 2010, the last valuation day of the year. The carrying value of these stocks is equal to their fair value.

Mortgages are secured by first recourse on residential properties. Interest rates range from 2.9% to 6.8% (2009 – 2.9% to 6.8%). Virtually all are for a fixed term ranging from 6 months to 5 years (2009 – 6 months to 10 years) and 32.2% (2009 – 31.9%) of balances are insured. Principal and interest payments are received on a monthly or more frequent basis. There is no provision for impairment loss on mortgages. The Company commences foreclosure proceedings in the event that any mortgage becomes delinquent.

The fair value for mortgages is determined by discounting the mortgage cash flows by the Canadian yield curve plus a margin. The carrying value is the outstanding principal balances.

Policy loans have interest rates which are set annually and ranged from 6.0% to 6.5% (2009 – 6.0% to 6.5%) during the year.



The outstanding balance for policy loans approximates the fair value since interest rates are set annually and approximate market rates.

Fair value hierarchy

Assets and liabilities recorded at fair value in the balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- **Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.**

The Company defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition for stocks, and the size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities. Assets measured at fair value and classified as Level 1 include stocks, and all federal government and federal government backed bonds. These bonds are classified as Level 1 as they are traded using quoted prices in an active market, which is reflected in their narrow bid/ask spread. Fair value is based on market price data obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

- **Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).**

Level 2 inputs include quoted prices for assets in markets that are considered less active or inputs other than quoted prices that are observable for the instruments such as interest rates and yield curves, volatility, prepayment speeds, credit risks and default rates where available. Assets measured at fair value and classified as Level 2 include provincial bonds, municipal bonds, corporate bonds, and asset-backed securities. Fair value is based on market price data obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

- **Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.**

Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. No assets were classified as Level 3 during the year ended December 31, 2010.

The Company has categorized its assets measured at fair value into the three-level fair value hierarchy as summarized in the following table, based upon the priority of the inputs to the respective valuation technique as defined in the preceding section:

Assets at fair value as at December 31, 2010							
		Level 1		Level 2		Total	
		('000s)					
Bonds	\$	96,175		\$	385,695		\$ 481,870
Stocks		70,506			–		70,506
	\$	166,681		\$	385,695		\$ 552,376



THE WAWANESA LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

During the year ended December 31, 2010, there were no financial assets transferred between Level 1, Level 2 or Level 3.

Assets at fair value as at December 31, 2009

	Level 1	Level 2	Total
	('000s)		
Bonds	\$ 90,524	\$ 345,965	\$ 436,489
Stocks	59,413	–	59,413
	\$ 149,937	\$ 345,965	\$ 495,902

Other net investment income is from the following sources:

	2010	2009
	('000s)	
Interest income		
Held-for-trading bonds	\$ 15,384	\$ 15,367
Available-for-sale bonds	4,308	4,000
Mortgages	1,137	1,443
Policy loans	952	958
Cash and other interest expense	(36)	(50)
Dividend income		
Held-for-trading stocks	1,118	894
Available-for-sale stocks	574	535
Other income	33	34
Investment expenses	(525)	(517)
Total other net investment income	\$ 22,945	\$ 22,664

Other than temporarily impaired AFS assets

The Company did not have any write downs for impaired AFS assets in the current year or prior year. Recovery of previously recognized write downs for impaired AFS debt securities in the year was nil.

General provisions made for anticipated future losses of principal and interest on investments are included as a component of policy liabilities and are approximately \$ 7,157,000 (2009 – \$6,069,000).



THE WAWANESA LIFE INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

Temporarily impaired AFS assets

The AFS assets disclosed in the following table exhibit evidence of impairment, however, the impairment loss has not been recognized in the statement of operations because it is considered temporary. Financial assets designated as HFT have been excluded from the following table since changes in fair value of these assets are recorded in the statement of operations.

	2010		2009	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	('000s)			
Bonds	\$ 23,202	\$ 1,359	\$ 17,256	\$ 2,378
Stocks	–	–	3,600	1,128
Total temporarily impaired financial assets	\$ 23,202	\$ 1,359	\$ 20,856	\$ 3,506

In connection with the Company's investment management practices and review of its investment holdings, it is believed that the contractual terms of bond investments will be met and/or the Company has the ability to hold these investments until they recover in value.

Securities lending

The Company engages in securities lending to generate fee income. Certain securities from its portfolio are loaned to other institutions for short periods. An agreement between the Company and its custodian limits lending activity to approved creditors and specifies suitable types of collateral. The collateral pledged by the borrower exceeds the value of the assets on loan. At December 31, 2010, the Company had securities on loan with a fair value of \$62,014,000 backed by collateral with a fair value of \$64,188,000 (2009 – securities on loan with a fair value of \$49,173,000 were backed by collateral with a fair value of \$51,819,000).

5 FINANCIAL INSTRUMENT RISK MANAGEMENT

The Company has a series of management programs and reporting structures that address the material financial instrument risks to which the Company is exposed. A Board approved framework details the Company's policies and standards and its measurement, control and reporting practices. Management actions are taken to control, mitigate or capitalize on the material risks presented in its business environment and are the basis for the Company's sound business management practices.

The most significant risks that the Company must manage concerning financial instruments include credit, market and liquidity risk.

The Company does not invest in commercial mortgages, derivatives, leases, commercial or personal loans.

Credit risk

Credit risk is the possibility of financial loss, despite realization of collateral security or property, resulting from the failure of a debtor to honour its obligation to the Company. It is a material risk that the Company is primarily exposed to through its bond and residential mortgage portfolios and policy loans.



THE WAWANESA LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

The Company's Investment Policy Statement manages the credit risk of the bond portfolio by requiring sound asset diversification, restricting the amount exposed to any one issuer and requiring a portfolio of high quality. The credit risk in the mortgage portfolio is managed by restricting the size of each individual mortgage and the mortgage portfolio as a whole, as well as specifying the maximum loan to equity ratio and acceptable geographic locations for lending. These portfolios are monitored regularly and reviewed quarterly with the Investment Committee of the Board.

The Company limits its investment concentration in any one corporate investee or control group to 3% of general fund assets. At December 31, 2010, the largest corporate credit exposure was 2.4% of general fund assets (2009 – 2.9%) or 12.2% of total equity (2009 – 14.4%). Residential mortgages are secured by first recourse on the residential properties. The largest single mortgage balance was \$373,000 (2009 – \$493,000). The mortgage portfolio is comprised of single-family, owner-occupied dwellings in the greater Winnipeg area.

Policy loans are secured by the cash value that has accumulated within the individual policy.

The following table summarizes the Company's maximum exposure to credit risk on the balance sheet. The maximum credit exposure is the carrying value of the asset net of any provision for loss.

	2010	2009
	('000s)	
Bonds		
Federal	\$ 96,175	\$ 90,524
Provincial	139,969	101,974
Municipal	19,865	19,960
Corporate rated A or higher	207,327	207,234
Corporate rated below A	18,534	16,797
Residential mortgages – conventional	12,776	16,540
Residential mortgages – insured	6,075	7,749
Policy loans	15,408	14,623
Outstanding premiums	467	615
Investment income due and accrued	4,069	3,975
Other assets	4,246	3,012
Maximum credit risk exposure on the balance sheet	\$ 524,911	\$ 483,003

See note 4 for details of the credit ratings of bonds.

The Company has analyzed the financial assets on the balance sheet that are past due as at December 31, 2010, and concluded that the total amount past due is immaterial. No impairment provision has been recorded.



Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, equity risk and currency risk.

- (i) **Interest rate risk** is the potential for financial loss arising from changes in interest rates. The Company is exposed to interest rate risk in the normal course of business. The risk exists to the extent that the cash flows from the assets supporting the liabilities do not match the policy obligations in timing and amount. The Company's exposure to future changes in interest rates is significantly reduced for many lines of business due to the practice of matching cash flows on the assets with those of the corresponding liabilities. The Company does not invest in derivative financial instruments.

To manage interest rate risk, product lines with similar liability profiles and the assets supporting those liabilities are grouped into separate funds. The Company's Investment Policy Statement outlines the asset duration of each fund to be maintained within a specified range of the duration of the fund liabilities. Techniques for measuring interest rate risk include duration analysis, cash flow analysis and yield curve sensitivity testing. Interest rate sensitivity is provided for in the actuarial liabilities for all policies, with an adequate provision to absorb moderate changes in interest rates. Interest rate risk is regularly monitored by management and reported to the Investment Committee of the Board on a quarterly basis.

The approximate impact of an increase of 100 basis points in the interest yields would increase net income of the Company by \$5,364,000 (2009 – \$7,071,000) and decrease other comprehensive income of the Company by \$4,047,000 (2009 – \$3,424,000). The approximate impact of a decrease of 100 basis points in the interest yields would decrease net income of the Company by \$18,326,000 (2009 – \$5,681,000) and increase other comprehensive income by \$4,437,000 (2009 – \$3,726,000).

- (ii) **Equity risk** is the uncertainty associated with the valuation of assets arising from changes in the equity markets. To mitigate this risk, the Company's Investment Policy Statement provides for prudent investment in equity markets within clearly defined limits.

HFT equities are used mainly to support participating or universal life products where investment returns are passed through to the policyholders through changes in the dividend scale or the rate of return credited to the policy's cash value. For these products, changes in equity assets are largely offset by changes in actuarial liabilities.

Equity risk also exists in the Company's segregated funds as management fee income is based on the market value of the assets under administration. In addition, capital guarantees exist on our segregated fund products where the liabilities are affected by movements in the equity markets. Additional reserves may be required due to these guarantees. Overall, it is estimated that a 10% increase across all equity markets would result in a \$1,891,000 (2009 – \$1,571,000) increase to net income and a \$1,681,000 (2009 – \$1,557,000) increase to other comprehensive income. The approximate impact of a 10% decrease across all equity markets would result in a \$2,280,000 (2009 – \$1,421,000) decrease to net income and a \$1,681,000 (2009 – \$1,557,000) decrease to other comprehensive income.

- (iii) **Currency risk** represents the risk that the Company incurs losses due to exposure to foreign currency fluctuations. As the Company only operates in Canada, it has a minimal amount of liabilities and future cash obligations denominated in any currency other than Canadian dollars. The Company has accepted limited exposure to currency risk through its Investment Policy Statement allowing restricted investment in U.S. and International Equity Index Funds that will never exceed a specified portion of the Company's regulatory capital. Overall, it is estimated that the impact of a 10% increase or decrease in foreign currency rates on the Company's net income and other comprehensive income would be immaterial.



Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all its cash outflow obligations as they come due. Liquidity guidelines have been established by the Board of Directors and are set out in the Company's Investment Policy Statement. The guidelines require that a portion of the investment portfolio be in readily marketable securities that equals or exceeds policyholder obligations. Liquidity risk is regularly monitored by management and reported to the Investment Committee of the Board on a quarterly basis.

Readily marketable securities include all bonds with an 'A' or higher credit rating and all Canadian equities. At December 31, 2010, readily marketable securities represented 107.5% (2009 – 108.5%) of all policy liabilities.

The following table summarizes the undiscounted cash flows of financial liabilities by contractual or expected maturity:

As at December 31, 2010					
	One year or less	One to two years	Two to five years	More than five years	Total
	('000s)				
Financial liabilities					
Policy liabilities (1)	\$ 107,789	\$ 14,243	\$ 23,258	\$ 1,041,115	\$ 1,186,405
Other financial liabilities (2)	3,411	–	–	–	3,411
	<u>\$ 111,200</u>	<u>\$ 14,243</u>	<u>\$ 23,258</u>	<u>\$ 1,041,115</u>	<u>\$ 1,189,816</u>
As at December 31, 2009					
	One year or less	One to two years	Two to five years	More than five years	Total
	('000s)				
Financial liabilities					
Policy liabilities (1)	\$ 98,965	\$ 12,867	\$ 23,310	\$ 1,018,327	\$ 1,153,469
Other financial liabilities (2)	4,064	–	–	–	4,064
	<u>\$ 103,029</u>	<u>\$ 12,867</u>	<u>\$ 23,310</u>	<u>\$ 1,018,327</u>	<u>\$ 1,157,533</u>

- (1) Policy liability cash flows are undiscounted and include estimates related to the timing and payment of death, disability and health claims, surrenders, maturities, dividends, annuity payments, amounts on deposit, commissions and premium taxes offset by future premiums and fees. These cash flows are based on best estimate assumptions used in determining the policy liabilities and exclude recoveries from reinsurance agreements. Due to the use of assumptions, actual cash flows will differ from these estimates.
- (2) Other financial liability cash flows are undiscounted and include income taxes payable and other liabilities, as included on the balance sheet.

6 POLICY LIABILITIES

Nature of policy liabilities

Policy liabilities represent an estimate of the amount which, together with future premiums and investment income, will be sufficient to pay outstanding claims and provide for future benefits, dividends and expenses under all in force insurance and annuity contracts. Policy liabilities consist of the following:

	2010	2009
	('000s)	
Actuarial liabilities	\$ 469,749	\$ 419,773
Provision for unpaid and unreported claims	7,790	5,380
Policyholder amounts on deposit	5,850	5,730
Total policy liabilities	\$ 483,389	\$ 430,883

Actuarial liabilities

Actuarial liabilities are comprised of the following amounts for each significant line of business:

	2010	2009
	('000s)	
Individual life participating	\$ 199,459	\$ 175,832
Individual life non-participating	97,351	80,701
Individual annuities participating	51,239	51,372
Individual annuities non-participating	96,994	93,584
Group life and health	24,706	18,284
Total actuarial liabilities	\$ 469,749	\$ 419,773

Actuarial liabilities have been determined by the Appointed Actuary using accepted actuarial practice which involves the use of assumptions for such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of policy termination. The process of determining actuarial liabilities necessarily involves the risk that actual results will deviate from assumed results. The risk varies in proportion to the length of the period covered by each assumption and the potential volatility of actual results.

Each assumption is determined based on expected experience plus a margin. The margin provides for uncertainty in establishing expected experience and to allow for possible deterioration in experience. The additional reserve resulting from using assumptions which include these margins is referred to as the provision for adverse deviations. The provision will be included in future income to the extent it is not required to cover adverse experience.



THE WAWANESA LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

The nature and method of determining the significant assumptions made in the computation of actuarial liabilities are described below.

Risk	Nature and method of determination	Risk management
Mortality	The Company is exposed to mortality risk through both group and individual policies. Estimates of future mortality rates are based on the Company's and industry experience over extended periods.	The insurability of applicants is determined in accordance with established and documented underwriting standards. Exposure to large claims is managed through the establishment of policy retention limits. Insurance amounts in excess of the retention limit on a single life are reinsured with other companies. The maximum retention for individual life insurance policies is \$250,000 (2009 – \$250,000) and the maximum retention for group life insurance policies is \$150,000 (2009 – \$150,000). The exposure to multiple claims from a single accidental cause is managed by a catastrophe reinsurance agreement. The catastrophe reinsurance covers aggregate claims in excess of \$1,000,000 up to a maximum amount of \$10,000,000. Claims experience (actual vs. expected) is monitored by management. This information is reported to the Board of Directors regularly.
Morbidity	The Company is exposed to significant morbidity risk through the issuance of group long-term disability and extended health coverages. Estimates of future morbidity rates are based on the Company's and industry experience over extended periods.	The acceptance and rating of all health and disability applicants is determined in accordance with established and documented underwriting standards and procedures. Exposure to large claims is managed by establishing policy retention limits. Insurance amounts in excess of the retention limit on a single life are reinsured with other companies. The maximum retention for long-term disability benefits is \$14,000/year (2009 – \$14,000/year) or \$30,000/year (2009 – \$30,000/year) to a maximum of five years for our small group plan. The maximum retention for out-of-country extended health benefits is \$100,000 (2009 – \$100,000) per incident. Morbidity claims experience is reported to the Board of Directors regularly. Senior management regularly compares actual morbidity experience to industry studies. Claims management policies have been established and documented for all types of disability and health claims.



THE WAWANESA LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

Risk	Nature and method of determination	Risk management
Policy termination	The termination of individual life insurance policies may expose the Company to risk. Policyholders may lapse their policies by discontinuing premium payments or requesting surrender of their policies for the cash value. Policy termination assumptions are based on Company experience augmented by industry experience.	When developing a new product or pricing an existing product, the Company carefully analyzes the amount of policy termination risk. Reinsurance is used to lessen this risk for certain plans. Company policy termination experience is monitored by senior management.
Expense	Expense assumptions reflect the projected costs of maintaining and servicing in force policies. The expenses are derived from internal cost studies projected into the future with an allowance for inflation.	Senior management reviews expense levels on a quarterly basis and approves expenditures of large amounts and the hiring of additional personnel.
Interest rate	<p>Interest rate risk is the potential for financial losses from changes in interest rates. The risk exists to the extent that asset cash flows do not match the liability cash flows in timing and amount.</p> <p>The valuation process uses multiple interest scenarios. This provides a provision for changes in interest rates.</p>	<p>Assets are invested to provide a degree of matching the asset cash flows to the related liability cash flows.</p> <p>Interest rate risk is monitored by management and reported to the Investment Committee of the Board on a quarterly basis.</p>
Stock returns	The future expected return on stocks is based on long-term historic returns of stocks. The majority of the stocks backing liabilities are for participating whole life products or universal life plans.	The dividend scale is reviewed annually. Changes in returns can be passed through to the participating policyholders. The universal life plans have index-linked stock returns where the stock market performance is passed through to the policyholders.



THE WAWANESA LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

Assets supporting liabilities and capital and surplus

The following table shows the assets supporting liabilities for the product lines shown (including actuarial and other policy liabilities), and assets supporting capital and surplus as at December 31:

		2010						
		Bonds		Stocks		Mortgage loans	Other	Total
		Held-for- trading	Available- for-sale	Held-for- trading	Available- for-sale			
		('000s)						
Participating								
Individual life	\$ 133,662	\$ –	\$ 47,244	\$ –	\$ –	\$ 18,553	\$ 199,459	
Individual annuity	43,396	–	–	–	7,267	576	51,239	
Non-participating								
Individual life	94,898	–	–	–	–	2,453	97,351	
Individual annuity	84,363	–	–	–	11,584	1,047	96,994	
Group life and health	19,841	–	–	–	–	4,865	24,706	
Other, including capital and surplus	10,970	94,740	–	23,262	–	4,961	133,933	
	\$ 387,130	\$ 94,740	\$ 47,244	\$ 23,262	\$ 18,851	\$ 32,455	\$ 603,682	
		2009						
		Bonds		Stocks		Mortgage loans	Other	Total
		Held-for- trading	Available- for-sale	Held-for- trading	Available- for-sale			
		('000s)						
Participating								
Individual life	\$ 121,680	\$ –	\$ 37,310	\$ –	\$ –	\$ 16,842	\$ 175,832	
Individual annuity	41,278	–	–	–	9,674	420	51,372	
Non-participating								
Individual life	78,295	–	–	–	–	2,406	80,701	
Individual annuity	78,175	–	–	–	14,615	794	93,584	
Group life and health	18,178	–	–	–	–	106	18,284	
Other, including capital and surplus	12,141	86,742	–	22,103	–	6,175	127,161	
	\$ 349,747	\$ 86,742	\$ 37,310	\$ 22,103	\$ 24,289	\$ 26,743	\$ 546,934	



THE WAWANESA LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

Change in actuarial liabilities

The change in actuarial liabilities is as follows:

	2010	2009
	('000s)	
Balance – beginning of year	\$ 419,773	\$ 374,889
Normal change		
New business	9,466	1,838
In force	40,705	42,546
Change in method and assumptions	(195)	500
Balance – end of year	\$ 469,749	\$ 419,773

Valuation assumptions are reviewed and updated annually. Changes in assumptions can increase or decrease actuarial liabilities. The changes in assumptions and their impact on actuarial liabilities were as follows:

	2010	2009
	('000s)	
Mortality and morbidity	\$ (4,572)	\$ (4,334)
Lapse	4,608	5,928
Expenses	(231)	–
Other	–	(1,094)
	\$ (195)	\$ 500



THE WAWANESA LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

7 REINSURANCE CEDED

The Company utilizes reinsurance primarily to limit the mortality or morbidity exposure on a single life. Additional amounts of mortality risk may also be reinsured where it is in the financial interest of the Company to do so. An insignificant amount of interest rate and lapse risk is reinsured. The majority (99%) of the reinsurance business is transacted with companies registered in Canada which are subject to regulation by the Office of the Superintendent of Financial Institutions Canada. All reinsurance arrangements are approved by senior management.

The retention limits or maximum exposures on insurance policies are as follows:

	2010	2009
	('000s)	
Individual Life	\$ 250	\$ 250
Group Life	150	150
Group Health – out of country	100	100
Group Disability	14/year	14/year
Group Disability – small group plan, maximum 5 years	30/year	30/year

The Company also has reinsurance in place for multiple deaths resulting from a catastrophic accident. Coverage is for aggregate claims in excess of \$1,000,000 (2009 – \$1,000,000) up to \$10,000,000 (2009 – \$10,000,000) from a single accident.

Reinsurance ceded does not discharge the Company of its liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company. A contingent liability exists should an assuming company be unable to meet its obligations. At December 31, 2010 the Company had outstanding balances from reinsurers totalling \$2,946,000 (2009 – \$1,528,000). All recoverable amounts are with reinsurers with an A.M. Best credit rating of A – (Excellent) or higher.

The amounts shown in the financial statements are net of the following amounts related to reinsurance ceded:

	2010	2009
	('000s)	
Premiums	\$ 14,171	\$ 12,106
Claims	8,488	7,765
Actuarial liabilities	29,909	40,816

8 INCOME TAXES

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2010	2009
	('000s)	
Earnings before income taxes	\$ 951	\$ 8,611
Combined statutory tax rate	29.61%	30.96%
Tax payable based on statutory tax rate	282	2,666
Effect of:		
Permanent differences	(286)	(241)
Future income tax rate changes	6	(165)
Legislative Income Tax Act changes	–	1,272
Capital taxes	78	–
	\$ 80	\$ 3,532
Provision for (recovery of) income taxes		
Current	\$ (422)	\$ 6,630
Future	502	(3,098)
	\$ 80	\$ 3,532

Future income tax assets and liabilities consist of temporary differences between the accounting and tax basis of assets and liabilities as follows:

	2010	2009
	('000s)	
Future income tax assets (liabilities)		
Invested assets	\$ (936)	\$ (1,929)
Policy liabilities	2,058	3,981
Deferred gains on portfolio investments	(1,410)	(1,839)
	\$ (288)	\$ 213



THE WAWANESA LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

Income taxes included in OCI

Other comprehensive income included on the statement of comprehensive income is presented net of income taxes. The income tax amounts included in each component of other comprehensive income are as follows:

	2010	2009
	('000s)	
Change in unrealized gains on available-for-sale assets	\$ (1,871)	\$ (3,268)
Reclassifications to net income for available-for-sale assets	288	387
Total income taxes included in OCI	\$ (1,583)	\$ (2,881)

9 SEGREGATED FUNDS

The net asset value of the Segregated Funds, for which the Company is the issuer, totalled \$167,842,000 (2009 – \$139,896,000). These Funds act as an investment vehicle for policyholders within individual savings plans. Segregated Fund policyholders bear the full investment risk of, and receive all the benefits from, the assets of the Funds. Investments held for Segregated Funds are carried at fair value. Segregated Funds are presented separately in the Company's financial statements for information purposes and do not form part of the General Funds of the Company.

10 SHARE CAPITAL

Authorized – Unlimited number of common shares without par value.

Issued and outstanding – 26,500 common shares, all of which have been issued for cash to The Wawanesa Mutual Insurance Company.

11 DIVIDENDS AND TRANSFERS

From time to time, the Board of Directors sets apart a portion of participating policyholders' equity as safe and proper for distribution as dividends or bonuses to participating policyholders. The par account also transfers an amount to the shareholder account which is based on actual dividends paid to par policyholders. The transfer amount is limited by legislation.

	2010	2009
	('000s)	
Par dividends to policyholders	\$ 4,174	\$ 4,201
Net par transfer to shareholders	456	467
	\$ 4,630	\$ 4,668



12 CAPITAL MANAGEMENT

The Company's capital management objective is to exceed regulatory and internal capital targets to ensure that a strong financial position is maintained for the safety of policyholders and to provide a basis for confidence in the Company by the shareholder, policyholders, reinsurers, brokers and other interested parties.

OSFI has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). OSFI expects life insurance companies to maintain a minimum capital ratio of 150%. The Board of Directors has specified a desirable, internal capital target of 200%.

The responsibility for capital management has been assigned by the Board of Directors to management. Management has established policies and procedures designed to identify, measure and report all material risks. Management reports to the Board of Directors changes in the capital ratio and the reason for the change, projections of the MCCSR ratio for 5 years under a variety of scenarios and general observations regarding future capital adequacy.

The Company defines capital in accordance with the Capital Available components set out in the MCCSR. The main components of Capital Available consist of share capital, retained earnings and policyholders' account and accumulated other comprehensive income. The Company's Capital Required is determined by its risk profile and includes an assessment for asset default risk, market risk, insurance risk and change in interest rate risk. The capital ratio is calculated by dividing Capital Available by Capital Required.

	2010	2009
	('000s)	
Capital available		
Share capital	\$ 26,500	\$ 26,500
Retained earnings	54,669	52,719
Policyholders' account	28,003	29,082
Other	5,444	3,429
	\$ 114,616	\$ 111,730
Capital required		
Asset default and market risks	\$ 12,159	\$ 13,298
Insurance risks	22,218	24,200
Interest rate risks	6,518	5,617
	\$ 40,895	\$ 43,115
Ratio	280%	259%



13 RELATED PARTY TRANSACTIONS

The Company has the following transactions with its parent Company:

- The Company reimburses the cost of expenses paid on its behalf or shared with the parent totalling \$5,665,000 (2009 – \$12,197,000).
- The parent Company pays commissions on behalf of its brokers to investment accounts maintained by the Company of \$11,582,000 (2009 – \$10,214,000).
- The parent Company purchases group employee benefits from the Company at a cost of \$6,092,000 (2009 – \$5,561,000).

Balances between the Company and its parent are settled on a regular basis and the outstanding amount is immaterial at December 31, 2010 and 2009.

THE WAWANESA LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

14 SEGMENTED INFORMATION

	2010				
	Individual life	Individual annuity	Group life and health	Capital and surplus	Total
	('000s)				
Premium income	\$ 39,081	\$ 32,482	\$ 26,966	\$ –	\$ 98,529
Investment income	33,905	4,183	1,356	5,792	45,236
Income taxes	(52)	574	(2,104)	1,662	80
Net income (loss)	494	1,356	(5,109)	4,130	871
Other comprehensive income	–	–	–	3,736	3,736
Total comprehensive income (loss)	\$ 494	\$ 1,356	\$ (5,109)	\$ 7,866	\$ 4,607

	2009				
	Individual life	Individual annuity	Group life and health	Capital and surplus	Total
	('000s)				
Premium income	\$ 37,668	\$ 27,402	\$ 23,486	\$ –	\$ 88,556
Investment income	37,085	6,598	1,359	5,737	50,779
Income taxes	1,553	969	(853)	1,863	3,532
Net income (loss)	8	2,089	(892)	3,874	5,079
Other comprehensive income	–	–	–	6,423	6,423
Total comprehensive income (loss)	\$ 8	\$ 2,089	\$ (892)	\$ 10,297	\$ 11,502

15 COMPARATIVE FIGURES

Certain of the prior year's figures have been restated for comparative purposes.



THE WAWANESA LIFE INSURANCE COMPANY
DIVIDEND POLICY STATEMENT DECEMBER 31, 2010

1 INTRODUCTION

This Dividend Policy Statement has been adopted by the Board of Directors and a copy has been sent to the Superintendent of Financial Institutions. All dividends declared must be in accordance with this Dividend Policy Statement.

Prior to approving a dividend scale, the Board of Directors will receive a report from the Company's appointed actuary stating whether, in his opinion, the dividend scale conforms to this Dividend Policy Statement and the professional practice standards of the Canadian Institute of Actuaries on dividend determination.

2 ELIGIBILITY TO RECEIVE DIVIDENDS

Participating immediate annuity policies

Immediate annuity policies provide a periodic annuity payment for the life of the annuitant or for a specified time period. The amount of the annuity payment is comprised of a guaranteed portion and a dividend portion. No change in the dividend portion is anticipated.

Participating deferred annuity policies

These policies are accumulation annuity products which carry a guaranteed minimum rate of return. At the time a deposit is received, a current rate of interest is applied for the specified investment period. The difference between the current rate and the guaranteed rate is the dividend component.

Participating individual life insurance policies

Dividends on these policies are anticipated to be paid annually, beginning as of the end of the second policy year. The amount available to be paid as dividends is determined based on various factors including the Company's earnings, any regulatory requirements and the amount of surplus required to ensure the continuing financial stability of the Company.

The dividend scale is designed to allocate dividends in a fair and equitable manner between the classes of policyholders. The dividend scale sets out a formula for the payment to policies of distributable earnings originating from three sources: investment earnings, mortality, and expense experience. The dividend scale is designed to distribute dividends among policies in the same proportion as the policies are considered to have contributed to distributable earnings.

The dividend scale for these policies will be updated when significant changes in experience occur.

THE WAWANESA LIFE INSURANCE COMPANY
SOURCE OF EARNINGS DECEMBER 31, 2010

The Source of Earnings are attributable to one of the following categories:

Expected profit on in-force business

This includes the release of the Provisions for Adverse Deviations (PFADs) plus the expected profits on Segregated Funds. The release of the PFADs is the profits arising on the in-force business if the expected assumptions used in calculating the actuarial liabilities are realized.

Impact of new business

This represents the overall loss during the first year on new business. The PFADs in the actuarial liabilities contribute to an over-all initial loss on issuing new business. These PFADs are anticipated to be released into income in future years to the extent they are not required to cover future adverse experience.

Experience gains and losses

The experience gains result from items such as investment returns, claims and expenses where the actual experience during the year differs from the expected experience assumed in the actuarial liabilities. It also includes the amount the fee income generated on Segregated Funds differs from expected.

Management action and changes in assumptions

This section includes specific management actions and the impact of changes in assumptions used to calculate actuarial liabilities.

Earnings on surplus

This reflects the earnings on the surplus and capital of the Company.

Other

This represents all other sources of earnings not included above.



THE WAWANESA LIFE INSURANCE COMPANY
SOURCE OF EARNINGS DECEMBER 31, 2010

Source of Earnings 2010	Total Company	Individual life	Individual annuity	Group life and health
	('000s)			
Expected profit on in-force business	\$ 4,481	\$ 4,239	\$ 1,867	\$ (1,625)
Impact of new business	(14,787)	(9,454)	(510)	(4,823)
Experience gains and losses	1,654	2,410	573	(1,329)
Management action and change in assumptions	3,811	3,247	–	564
Other	–	–	–	–
Earnings on operations	(4,841)	442	1,930	(7,213)
Earnings on surplus	5,792			
Income before income taxes	951			
Income taxes	(80)			
Net income	\$ 871			

Source of Earnings 2009	Total Company	Individual life	Individual annuity	Group life and health
	('000s)			
Expected profit on in-force business	\$ 4,948	\$ 4,351	\$ 1,971	\$ (1,374)
Impact of new business	(9,112)	(8,970)	(142)	–
Experience gains and losses	7,375	6,830	1,300	(755)
Management action and change in assumptions	(337)	(650)	(71)	384
Other	–	–	–	–
Earnings on operations	2,874	1,561	3,058	(1,745)
Earnings on surplus	5,737			
Income before income taxes	8,611			
Income taxes	(3,532)			
Net income	\$ 5,079			





Standing (L to R): E. J. Beale, D. G. Unruh, J. S. McCallum, S. M. Van De Velde, G. J. Hanson, D. C. Crewson, R. R. Bracken, M. E. Northey, K. L. Matchett
Seated (L to R): B. W. Harrison, K. E. McCrea

DIRECTORS

B. W. Harrison 1,2,3,4
Chairman of the Board
E. J. Beale 2,3
R. R. Bracken 2,3
D. C. Crewson 1,4
G. J. Hanson 3,4
K. L. Matchett 1,4
J. S. McCallum 3,4
K. E. McCrea
M. E. Northey 1,2
D. G. Unruh 1,2
S. M. Van De Velde 3,4

1. Member of the Audit Committee
2. Member of the Conduct Review and Corporate Governance Committee
3. Member of the Investment Committee
4. Member of the Human Resources Committee



Wawanesa
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